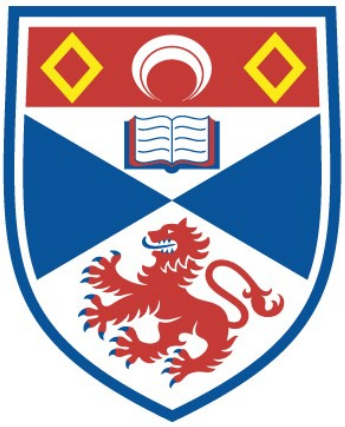
ECONOMIC INTEGRATION IN WEST AFRICA

Michael Uka Ezenwinyinya

A Thesis Submitted for the Degree of PhD
at the
University of St Andrews



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ECONOMIC INTEGRATION IN WEST AFRICA

A THESIS

PRESENTED TO THE UNIVERSITY OF ST. ANDREWS,

SCOTLAND FOR THE DEGREE OF DOCTOR OF PHILOSOPHY

BY

M. UKA EZENWINYINYA

To Uchenna

DECLARATION

I, Michael Uka Ezenwinyinya hereby declare that the following thesis is based on research carried out by me, that the thesis is entirely my own work and that it has not been accepted in any previous application for a higher degree.

The research was largely prosecuted in the University of St. Andrews where I was admitted as an M. Litt. student in October, 1970 but was transferred from the M. Litt. Ordinance to General Ordinance No. 12 on 1st March, 1972 and subsequently enrolled as a Ph. D. candidate.

M. Uka Ezenwinyinya
Candidate

CERTIFICATE

I certify that the aforesaid candidate has fulfilled the conditions of the Ordinance and Regulations prescribed for the degree of Doctor of Philosophy.

Professor Peter Robson
Supervisor,
Professor and Head of
Economics Department

ACKNOWLEDGEMENTS

In the course of this study I have enjoyed the goodwill, co-operation and assistance of many people and for its completion I have a certain amount of acknowledgement to make.

First and foremost, I am deeply indebted to my Professor and Supervisor, Professor Peter Robson for inspiring the urge to undertake this study in the first place. Without his interest, patience, searching criticisms and knowledgeable advice the study would not have been completed. Also I am grateful to a host of individuals who rendered research assistance during my occasional trips to Edinburgh and London. Of particular mention in this regard are the following: Mr. H.W. Ord of Centre of African Studies, University of Edinburgh and the Centre's Librarian, Miss G. Hunter, Professor R.J. Harrison-Church of the London School of Economics, Mr. J.D. Pearson, Librarian of the School of Oriental and African Studies, University of London, Mr. Graham Lewis of the Economist Intelligence Unit Limited and Mr. Martin Rudd of Wilbur Smith and Associates, London. Furthermore, I must express my gratitude to Professor R.S. Bhambri for reading and commenting on parts of this thesis as well as a number of other colleagues, especially Professors J.C. Wells and A. Gray, who read aspects of the later part.

Finally, I wish to place on record my sincere appreciation to the Danish Inter-Church Aid and World Service, which supported this study financially, and to my wife for her support and encouragement.

However, these persons are in no way responsible for the content of this thesis. The work is entirely the responsibility of the author.

University of St. Andrews, Fife
Ahmadu Bello University, Zaria
30th January, 1976.

M. Uka Ezenwinyinya

SUMMARY

This thesis offers some empirical insight into the problems and possibilities of economic integration in West Africa with particular reference to Ghana and the Entente Council States (i.e. Ivory Coast, Upper Volta, Niger, Dahomey and Togo).

As a background to the study, the historical evolution of the current problems of intra-regional trade and development is discussed with special attention to the economic structures and geo-political configuration of divisions and fragmentations inherited from the colonial past. These have affected recent integration schemes in the region whose performances are appraised and their failures highlighted.

Notwithstanding the structural problems of the economies of the area, the study sees a possibility of economic integration. It selects and applies a revised version of the Andics-Dosser model in evaluating the impact effects (gains) of market integration based on selected, existing regional industries (i.e. cement, chemical fertiliser, footwear and petroleum products) in Central-West Africa comprising Ghana and the Entente States. These are industries in which economies of scale exist, which would justify an arrangement for gradual trade liberalization in the products of such industries within a regional context. Based on the aforementioned products the welfare benefits derivable from market integration in terms of four chosen variables (domestic value-added, national income, foreign exchange and capital cost) are quantified. The estimates, which utilise 1969 data, indicate that integration-induced improvement in the region's growth rate of GNP will be of the order of 0.7% in 1975, increasing to 0.9% by 1980.

Integration by itself does not ensure an automatic equitable distribution of the benefits it generates. The text discusses the possible polarization effects of integration as well as the revenue-loss aspects of tariff disarmament and goes on to make policy suggestions as to how these problems might be solved. The inherent political instability in the region is underlined as a major obstacle to integration but the limited scheme which the study proposes, since it will entail a minimal loss of political sovereignty from the standpoint of prospective member states, is seen as likely to work - if given the chance - and policy guideposts are offered to this end.

Abstract of a Thesis entitled "Economic Integration in West Africa"

This study offers some empirical insight into the problems and possibilities of economic integration in West Africa with particular reference to Ghana and the Entente Council States (i.e. Ivory Coast, Upper Volta, Niger, Dahomey and Togo). Recent developments in integration analysis have shown that the traditional theory of integration is largely inapplicable to the economies of LDCs. Economic integration in the case of LDCs should be treated as a strategy of economic development rather than a mere tariff issue.

As a background to the study, the historical evolution of the current problems of intra-regional trade and development is discussed with special attention to the economic structures and geo-political configuration of divisions and fragmentations inherited from the colonial past. These have affected recent integration schemes in the region whose performances are appraised and their failures highlighted.

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Uka Iwuchukwu Ezenwe

University of St. Andrews, Scotland.

Ahmadu Bello University, Nigeria.
January 1976.

TABLE OF CONTENTS

LIST OF TABLES, MAPS AND CHARTS.

A GLOSSARY OF SELECTED ABBREVIATIONS USED IN THIS STUDY

ACPs = African, Caribbean and Pacific States

AEF = French Equatorial Africa

AOF = Afrique Occidentale Française (French West African Federation)

ARB = Africa Research Bulletin, Economic, Financial and Technical Series

BCEAO = Banque Centrale de Etats de L'Afrique de L'Ouest

BILLION = A thousand million (as used in this thesis).

BIR = Barclays International Review

BRU = Benefits Redistribution Unit

BTN = Brussels Tariff Nomenclature

CBS = Central Bureau of Statistics (Ghana)

CCCE = Central Fund for Economic Co-operation

CEAO = Communaute Economique de L'Afrique de L'Ouest.

CED = Compensatory Equity Distribution Criterion

CFA = African Financial Community

Cif = Cost, insurance and freight

CIDA = Canadian International Development Agency

CACM = Central American Common Market

COMECON = Council for Mutual Economic Assistance.

CXT = Common External Tariff

CMND = Command (used in connection with the printing of U.K. Government White Papers, which are given command numbers and published by H.M. Stationery Office).

E(C)S = Entente (Council of) States

EDF = European Development Fund

EEC = European Economic Community

ERP = Effective Rate of Protection

ECOWAS = Economic Community of West African States

FAO = Food and Agriculture Organisation

FAC = French Co-operation Aid Fund.

GATT = General Agreement on Trade and Tariffs

GECS = Ghana and Entente Council of States

ICAO = International Civil Aviation Organization

INVAD = Integration-induced Value Added

LAFTA = Latin American Free Trade Area

LDCs = Less-Developed Countries

NIL = National Income Loss

NRP = Nominal Rate of Protection

NRC = National Redemption Council

OAU = Organisation of African Unity

OED = Overall Equal Distribution

OERS = Organisation of Senegal River States

OGL = Open General Licence.

OMVS = Organisation for the Development of the Senegal River

OT = Offsetting Tax

PDF = Proportionality Distribution Formula

UCF = Union Compensation Fund

UDEAC = Central African Customs and Economic Union

UMAO = West African Monetary Union (Union Monétaire Ouest Africaine)

UNDP = United Nations Development Programme

UNECA = United Nations Economic Commission for Africa.

USAID = United States Agency for International Development.

UNIDO = United Nations Industrial Development Organisation

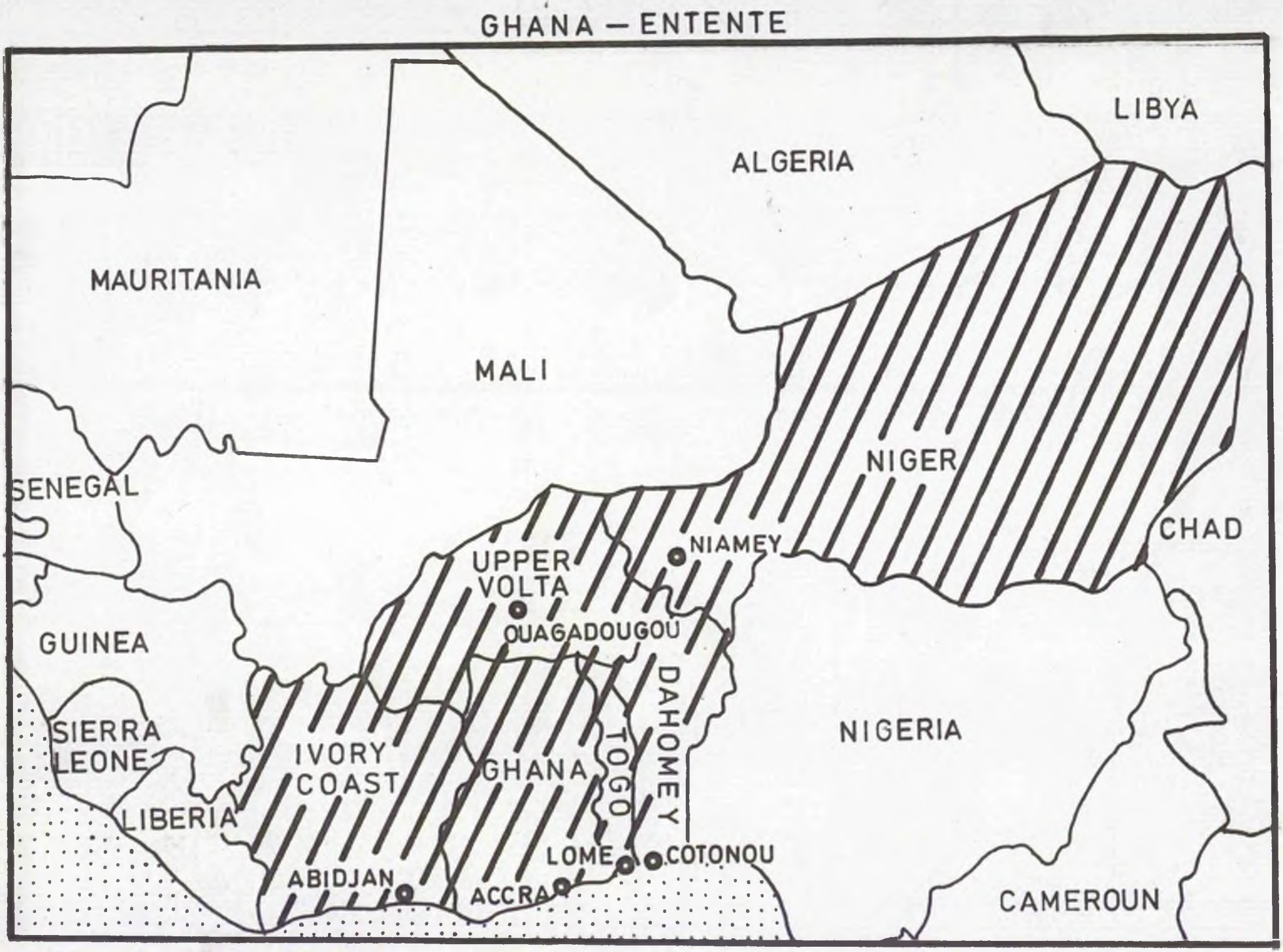
VAD = Value-Added

WACU = West African Customs Union

CORRIGENDA

1. For Dahomey, read the "Republic of Benin" (Very recently, the former changed its name to the latter).

2. The newly independent state of Guinea-Bissau has become the 15th member of the West African sub-region by ECA definition.


GHANA — ENTENTE
LIBYA
ALGERIA
MAURITANIA
MALI
NIGER
SENEGAL
CHAD
NIAMEY
UPPER VOLTA
OUAGADOUGOU
GUINEA
DAHOMEY
SIERRA LEONE
IVORY COAST
GHANA
TOGO
NIGERIA
LIBERIA
LOME
COTONOU
ABIDJAN
ACCRA
CAMEROUN

CHAPTER ONE

INTRODUCTION

GENERAL

1. INTEGRATION: An Overview of historical Perspectives

Our study deals essentially with economics. But it might be useful to explore at the very start how history permits us to understand the problems of economic integration in West Africa better. History talks of the past; hence economic history focuses on economics of the past. It is retrospective, whereas economics is prospective. To the extent that one is impossible without the other they speak the same language, and they nourish each other.

2. (i) Background to Colonial Policy and Integration in West Africa

To a great extent, the present politico-economic order in Africa represents the legacies of the colonial past. The vast majority of African countries, indeed all West Africa have attained political independence and statehood - real or apparent - but deeply ingrained habits, methods, artifical boundaries and structures and, not the least, ways of thinking which the colonial system imparted and fostered were not suddenly blown away by the "wind of change". It must be recalled that before the assumption of formal rule Western Europe had a long contact with Africa.

This is particularly so with West Africa. In fact, South of the Sahara, West Africa was one of the first regions to have any contacts with Western Europe. However, these early contacts, which were initially trade-motivated,[1] frequently interrupted the orderly development of politico-socio-economic life of the people.

During the 14th and 15th centuries pre-colonial civilizations are known to have flourished in certain parts of West Africa,

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1. K.O.Dike, Trade and Politics in the Niger Delta: 1830-1885, Oxford (Clerendon) Press, 1956, P.1

especially in the area around Benin. African blacksmiths knew how to work gold, copper, bronze, and even iron. They had even developed the agricultural system of rotational bush fallow. But, this trend towards orderly and natural development was brushquely arrested in the wake of slave trade. The introduction of this iniquitious trade in the 16th century following the discovery and the territorial conquests in the Americas, which left rich lands to develop and exploit, was not only a human haemorrhage inflicted on Africa but it destroyed the earliest chances of evolution and development of large economic units[2].

There is no way of gauging where the agrarian or technical African civilization would be to-day if it had been able to follow a normal course of development in contact with European techniques. History cannot be remade. The most one could say, in retrospection, is that, perhaps, if these medieval African communities were left alone and undisturbed to engage in legal and peaceful trade with the outside world, they might have evolved into cohesive and integrated political and economic units.

(ii) From Pre-colonial Distintegration to Integration.

But soon the old order was changing. The fifty years between 1830 and 1885 saw an epoch of change and revolution: it was in essence a period of transition from a predominantly slave-trading economy to one based on trade in the raw materials of the West African forest.

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2. See Rene Dumont, False Start in Africa, Andre Deutsch, 1966 p. 35. The frequent internal wars, which fed slave trade, disorganised the fabric of society and blocked progress towards political and economic order. Past achievement in this direction was dismantled.

Prior to this era, West Africa was the key slave market for Europe. But with the abolition of slave trade through a complex variety of factors - political, economic, strategic, and humanitarian - Europe sought to establish in place of slavery legitimate trade.

The buying and selling of commodities is almost always accompanied by the contact of cultures, the exchange of ideas, the mingling of peoples, and this has led not infrequently to political complications and wars. In so far as West Africa was concerned European traders initially limited their activities to trade and avoided entanglement in African politics. The African attitude to land[3], the hostility and suspicion of coastal chiefs, physical impediments and climatic barriers to penetration encouraged this type of attitude. Up to the beginning of the 19th century, the hostility of the well-armed coastal states was a factor in preventing European invasion of their territories and of their politics[4].

By the mid-nineteenth century, however, African opposition and resistance had started to crumble in the face a concerted European movement directed chiefly towards the invasion of the interior of West Africa.

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3. In strict West African customary law tribal land was corporatively owned. The chiefs - protectors of the tribal heritage - could not sign away lands of which in reality they were merely trustees. This being the case the alienation of land to foreigners was out of the question and tribal leaders were in duty bound to oppose any encroachment on their preserves. See T.O. Elias, Nigerian Land Law and Custom (London), 1950) pp.6-7

4. See K. O. Dike Op. cit., P.10

Because the territorial struggle involved different countries, namely Britain, France, Belgium and Germany, intense national rivalries were generated. These colonial powers having realised that they were virtually getting at each other's throat in their struggle for territorial claims decided to call a conference with the ultimate objective of settling once and for all future dispute with respect to territorial claims in Africa.

This was the Berlin Conference. One aim - in a sense the major one - of the Conference, 1884-85, as defined in the third "basis"[5], was to limit the effects of future African disputes upon international relations in Europe by prescribing some new code of conduct. The final Act provided that any power acquiring territory or establishing protectorates on the coasts of Africa should at once notify all other signatory powers, and declared that possession of territory on those coasts implied a responsibility for "the establishment of authority ..... sufficient to protect existing rights, and, as the case may be freedom of trade and of transit upon the conditions agreed upon"[6].

Thus, having succeeded in cutting up the continent into narrow strips of territories each running from coast into the hinterland, the colonising authorities concentrated their energy on trade, tapping raw materials and

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5. S. E. Crowe, The Berlin West African Conference, London, 1942

6. John D. Hargreaves, Prelude to the Partition of West Africa, MacMillan London, 1963, P. 337

enjoying unbridled monopoly supply of manufactures[7]. Roads, railways and waterways were organised to serve these interests. No internal transport network was independently developed to connect different parts of the same territory and therefore no national or territorial economies were created as a matter of deliberate policy objective except of course where two adjacent territories happened to come under one flag and where such integration lessened administrative costs[8].

The colonial frontiers, determined by distant and sometimes ill-informed negotiators and settled, in some cases, by ruler and compass alone, were not well-adapted to African needs. Even ethnic divisions of the area appear to have exerted very little influence on the colonial boundaries. Consider, for example, the following; the Ewe-speaking people were divided between the Gold Coast (now Ghana) and Togo; some Yorubas live in Dahomey, whilst the majority of their kinsmen are Nigerians; Gambia and Senegal, though two different countries, are ethically one and the same people. Until the unification of the Cameroons in 1961, the south was a part of Nigeria under the British and the rest under French. True to their policies, the metropolitan authorities, nevertheless, tightened their grip on these territories by means of customs, tariffs and monetary arrangements; the invisible trade of these territories was also confined largely to metropolitan countries.

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7. In some instances formal administrative responsibilities were not directly assumed. Britain in 1885, for example, happily left the administration of the area beyond the Niger delta in the hands of the National African Company "as the cheapest and most effective way" of discharging the obligations to maintain free navigation which had been accepted at Berlin. See J. D. Hargreaves, Ibid, P. 338.

8. See R. Gardiner, Economic Conditions in Africa, Africa Contemporary Record, 1969-70, P. C453

It was therefore within these new border-lines that the technology, culture, and institutions of the several colonial powers gradually made their impact during the twentieth century. Neighbouring West Africans with virtually identical cultural traditions overnight found themselves subject to different languages and different doctrines in school. Meanwhile, each of the major colonial powers, Britain and France, tried to achieve strong interterritorial links within its own area of authority, albeit for political and administrative convenience. On this France was a remarkable success having pursued its favoured colonial policy of assimilation and direct rule with a missionary zeal. Indeed in 1895 Paris took the first step to co-ordinate the activities of the individual colonial government, and to direct them towards common objectives, by creating the overall government of French West Africa (AOF). The colonies were both de facto and de jure an integral part of the French Union, even to the point of getting seats in the French Constituent Assembly to the overseas territories. The eventual formation of independent governments in the colonies, even in the distant future, seemed ruled out. In effect, the economies of the colonies were not integrated, especially in relation to France, but there was also an automatic tendency to unification[9].

Thus the prevailing circumstances set in motion other forces making for integration and unification. Within the French or British territories, trade and migration took no account of territorial boundaries.

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9. R. Julienne, "The Experience of Integration in French-Speaking Africa in A. Hazlewood (ed.) African Integration and Disintegration. O.U.P., 1967. This paragraph draws on the former author.

The spill-over effect of education also contributed in no small measure to reinforce this trend towards colonial economic integration. Institutions of higher learning were established only in a few strategic centres and they drew recruits from all parts of the dependencies. For instance, there was only one university, at Dakar, for the whole of French Africa from the end of World War II up to the period of Independence. British West Africa, though marginally better off, saw no more than three universities (Ibadan, Nigeria; Legon, Ghana; and Fourah Bay, Sierra Leone) by the close of the 1950s. Furthermore, there was the unifying influence and the spirit of belonging which the adoption of a common language in education created - although this has also created and fostered the polarization between the Francophone and Anglophone West Africa which to date remains an important divisive element in relations between the two.

In other aspects of economic life, effective colonial integration was in vogue. As already noted the monetary systems in colonial West Africa were centralised. French West Africa had a common currency, which has survived[10], a range of common services and a customs union which served as a mechanism through which resources were distributed from the wealthier coastal states of Senegal and Ivory Coast to their less-endowed peripheral inland neighbours.

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10. The West African Customs Union (UMAO), which includes all the francophone West African countries except Guinea and Mali, uses a common currency, the CFA franc and has a common central Bank (BCEAO). Following a co-operation agreement in 1962 France now guarantees the convertibility of the CFA franc into the French franc.

Even in British West Africa which was less closely knit to the metropolis, there was a common currency issued by the West African Currency Board. The establishment of research institutes and the organisation of common services and marketing boards[11] also operated on interterritorial basis.

What therefore follows from the foregoing account can be summarised thus:

(i) pre-colonial West Africa saw a measure of civilization, by the 19th century there was an evident trend towards the construction of larger and more effectively centralised communities, which the process of colonial penetration interrupted;

(ii) the colonial boundaries, arbitrary and imposed, were far more rigid than the pre-colonial ones;

(iii) the colonial authorities, each within its own area of jurisdiction, often achieved a strong interterritorial ties through the application of politico - economic integration policies, essentially for pragmatic reasons of administrative economy and convenience.

3. Decolonisation and the Operation of Centrifugal Forces.

Given the level of economic integration in West Africa prior to Independence, one might have expected an unimpeded progress, even if slower, towards closer economic co-operation after the achievement of self-rule. But this has not happened.

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11. Prior to 1947 the West African Produce Control Board handled the marketing and management of British West Africa's agricultural products. Thereafter, however, national Marketing boards, which were set up, took over and shared out assets of the West African Produce Control board.

Even on a continental scale, the study of economic integration between African states since the end of colonial rule, with few exceptions, has been the study of distintegration rather than integration. In spite of the present state of affairs, there is almost a staggering unanimity of views among African governments, in principle, on the urgent need for some form of close economic co-operation as exemplified in speeches, conferences and resolutions. However, that has been appearance rather than substance.

One may now ask what the forces are that have encouraged distintegration in West Africa? In particular, can the identification of these obstacles to integration lead to their removal? A cursory survey of the recent history of integration in West Africa, which have been discussed above, would help one to identify some of the problems.

One of the most important factors here seems to centre around the question of national sovereignty. The present cadre of African leaders, who fought for independence, fought and won on the basis of nation state and on the right of each country to govern itself. Hence there was a strong feeling among the African nationalists that political and economic salvation lay within the independent nation state. Dr. Nkrumah's popular slogan, "Seek ye first the political kingdom", seems, if only controversial, to have reflected the mood of the bulk of African leadership at the eve of independence.

See G.K. Helleiner, "The Fiscal Role of the Marketing Boards in Nigerian Economic Development 1947-61" in E.H. Whetham et al (ed). Readings in the Applied Economics of Africa. C.U.P. 1967

Whereas integration involves a conscious surrender or at least pooling of a measure of national sovereignty in policy formulation and execution, it was therefore not hard to see how the consciousness of newly won independence exerted strong influence on the general approach to economic integration. Indeed, aside from the issue of whether economic integration holds out the promise of improving the viability and performance of each territorial economy, the key question insofar as the countries under examination is concerned, is that of reconciling themselves to the economic (real or apparent) sacrifice of part or all of their sovereignty - the degree of sacrifice being a function of the kind of market arrangement. Thus the present weakening of economic ties is justified on the grounds that political power, at independence, was transferred to the territorial, not the supranational units - so maintaining the status quo after independence was a natural corollary.

Furthermore, the post-independence trend towards disintegration has been rationalised on the grounds that unity under colonial rule was illusory[12]. As Hazlewood succinctly put it: "it was a unity imposed from outside for the administrative convenience of the colonial power - it was a unity of Europe in Africa, reflecting the hegemony of the metropolitan country over its various colonies. It was not to be expected that, with the removal of Europe from the scence, the unity would necessarily continue."[13] Although this is generally true, there is another side to the coin. In the case of French West Africa, for example, the sequence of measures introduced by the French government

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12. Arthur Hazlewood (ed), African Integration and Disintegration O.U.P., 1967, p. 3

13. Ibid.

long before independence had a dismantling effect on the integration that had been established between the French Colonies.

The French Union was created under the 1946 constitution of the French Republic which established territorial councils in the Federation of French West Africa (AOF) as well as in French Equatorial Africa (AEF). The year 1952 saw the transformation of these territorial councils into Assemblies of a political nature. This process was carried further with the establishment of universal suffrage under the loi-cadre of 1956, and a redistribution of power in favour of the territories.[14] Two years later the territories were asked to choose between three alternatives, namely: complete independence, independence within the French community or absorption as a Department of France. But although only Guinea opted for complete independence, all the others who chose independence within the community were granted full independence by a stroke of pen in 1960. It cannot therefore be persuasively argued that independence was the only cause of disintegration. It was rather more of the effect than the cause.

Colonial critics tend to see in this chain of events leading up to independence as the "colonial plot" or what Hodgkin calls "false decolonisation".[15] They argue that the process of disaggregation and fragmentation prior to independence was a tactical move and clearly accords with the general interests of the western powers. According to this view the present politico-geographic map of Africa, as a mosaic of petty states extremely vulnerable to

14. A. Hazlewood, Ibid, P.340

15. See, Forward by T. Hodgkin in R. H. Green and Associate, Unity or Poverty?, Penguin, 1968, P. 14

external pressures, preserves the basic relationship of western dominance and African dependence by other means, after the transfer of formal political power.[16]

Again, the above statement seems to tell only half the story. It must be emphasized in no uncertain terms that the pressure for self-rule from African nationalists was an irresistible force and that the level of political awareness varied from one territory to another hence different territories were ready for independence at different times. To this extent it could be said that the colonial authorities were motivated by the desire to ensure that independence was handed over to the right people at the right time and that they merely responded to this urge.

The doubts surrounding the net benefits from integration in LDC's bring us to the second point. The apriori gains arising out of market integration , notwithstanding, it can be contended that, as a strategy of economic development, customs unions do not yield very large net benefits to the joint economic area in the early years. While the qualification of net gains might be difficult, and even contentious, it would seem that, generally, the net contributions from market integration to the economic development of Africa in the foreseable future are likely to be marginal. Green and Associate make the bold generalization that "it seems highly unlikely that the net present benefit from any existing structure of African economic integration exceeds 1-2% of domestic

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16. Ibid. Even the encouragement of such groupings and associations as the West African Customs Union, the Conseil de L'Entente, OCAM or the EEC-Associateship by the West is regarded as not inconsistent with the neo-colonialist theory so long as their objectives are limited and in safe western leading-strings.

products".[17] This no doubt stems from the structural imbalance of the economies of Africa which limits the volume of tradeable goods among African States. It may well be that, in spite of the large allocation of top level political, civil service, academic, and research time now directed to market integration studies in LDCs, the enchantment generated by the subject has only been equalled by the degree of caution with which African countries have, in reality, approached it.

The question of marginal net gains is often exacerbated by the problem of probable or real uneven distribution. For while the logic of specialization and of economies of scale centres on the general increase of welfare of the members of a free-trade community, the theory has no universally acceptable machanism for ensuring the equitable distribution of the welfare gains among the individual members. There are, however, at least, two common distribution devices for tackling this problem: the mechanism of fiscal transfers and the so-called "managed" specialization which details in form of a legislative instrument the formulas for equitable distribution of benefits. The trouble with these tools is that they tend to offer less than what the weaker economies want - "revocable subsides" and licences for some new regionally-conceived industries instead of strategic growth points, though the former, under certain circumstances, could create linkages comparable to the latter. At the same time they hold back the thrust of, and ask too much and expect a missionary spirit from, the relatively

17. R.H. Green, et al. Economic Co-operation in Africa: Retrospect and Prospect, O.U.P. 1967, P.29. See also P. Robson, Economic Integration in Africa, Allen & Unwin Limited, London, 1968. P.91. Professor Robson in quantifying the contribution of integration in the economic development of the three members of the East African Economic Community (Kenya, Tanzania, & Uganda) found that between 1965-70 the gains from integration would only imply an improvement in the regions annual growth of GDP of 0.5% over the period.

richer countries which can only make limited sacrifices at the present stage of their development.

It was on this issue of unsatisfactory distribution strategy that the West African Customs Union virtually disintegrated. The Ivory Coast, with about half of the regions exports and tax revenue but only a fourth of its imports and total expenditures, was unwilling to continue subsidizing the weaker economies, expecially that of Senegal. It sought rapid industrial expansion and markets for its industrial sector. It therefore organised the Entente which excludes Senegal. Even so the less developed Entente members wish to have a lee-way in promoting a number of consumer goods industries to replace imports from their richer neighbours. Inability to realise this aspiration increases disillusionment and chances of withdrawal. The East African Economic Community faced the threat of disintegration between 1964 and 1965 for similar reasons but in the end wise counsel prevailed and the reshaped community under the 1967 treaty tried to minimise the sacrifices of individual members.

However, the wishes of individual countries apart, the institution of checks and balances in a common market cannot be avoided if it were to survive to the mutual advantage of all.

Finally, another factor that might have affected the attitude of post-independence Africa towards integration is the problem of institutional framework building. The establishment of a competent administrative body, flexible and devoted, whose function would be to ensure the equitable distribution of gains from customs union and to safeguard, sometimes conflicting, national interests is not very easy in the present technical conditions of Africa.

There is also a political fact to the matter. Again, consider the EAEC

case, Under the 1967 Treaty, the three heads of state assisted by ministers constitute the principal executive authority of the community. All bills and annual budgets must receive the assent of all the three heads of state before they are executed. This implies a considerable range of mutual and political understanding among the three, especially with respect to their foreign policies in order to avert disruptive inter-state hostilities. In fact, the recent coup in Uganda and the refusal of President Nyerere of Tanzinia to recognise the new Ugandan regime of Idi Amin which in turn held up the passage of the 1971-72 annual budget once more underlines the need for political understanding amongst common market countries.

Needless to say that in one significant sense economic integration is in itself a political issue. Economic integration is an aspect of the global strategy of economic development[18] which is essentially a political goal. Thus the political or ideological philosophies of the new states of Africa are likely, directly or indirectly, to shed some effect on their long-term economic policies.

On the whole, none of these barriers to integration is insuperable, given a genuine burning desire and political goodwill to overcome them.

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18. See David Wall, Export Prospects for South of the Sahara, African Affairs. Vol. 68 No. 270. Jan. 1969.

4. THE DEFINITION AND RATIONALE OF INTEGRATION

(i) THE CONCEPT.

"Integration" in ordinary usage means unification or putting parts together into a whole. In economic literature the term "economic integration" is sometimes hard to pin down to a precise definition. Some authors include social integration in their conceptualization; others define integration from static or dynamic standpoints. From the static point of view integration is considered as a state of affairs which would obtain, at the end of a fairly long process leading to the complete merger of national identities. The dynamic view, on the other hand, sees integration as a process by which discriminations existing along national borders are progressively removed between two or more countries. Even further afield there are other definitions which view integration as the mere existence of some measure of trade relations between independent national economies.[19]

For the purpose of this study we intend to adopt the dynamic concept of integration - though in the long run the edge between the static-dynamic dichotomy is blurred. In this sense, our operational definition of integration is the gradual but steady process of complete tariff disarmament along side with other barriers to trade between the contracting parties to their mutual advantage. This seems to us to be the most feasible and achievable objective

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19. Bela Balassa: "Towards a Theory of Economic Integration", Kyklos, No. 1 (1961) PP. 1-5. This article contains a critical survey of these definitions as well as useful references - indeed a really good appraisal.

of market integration in to-day's West Africa. A workable pattern of integration has to be realistic and pragmatic. It should embrace neither the doctrinaire attitude of the 1960's nor demand political union as a precondition for economic integration.[20]

Indeed, the first stage of integration which is much closer to economic co-operation - a process of stage-by-stage lowering of tariff and other barriers to trade - seems a convenient starting point, politically and otherwise, for emergent LDCs. But, when and if, there is an uninterrupted progress towards the completion of the integration process, then the static concept could be applied. So in the West African context we are primarily concerned with the "integration path" which ultimately leads to the "integration goal" when everything would be static and "dead" and not the other way round.

Furthermore, there is one more conceptual aspect of integration which should be put in proper perspective. The economic significance of national borders is that they introduce discontinuities in the flows of commodities and factors of production. And it is these discontinuities which actually lead to effective discrimination in the economic sphere. But when the discriminatory tariff walls are dismantled obstacles to intra-zonal trade will be lessened or even completely removed. However the degree of free movement of goods and factors would be a function of the stage of integration. In classifying the stages of integration, five major categorizations are usually made.[21]

20. Of course, economic integration cannot operate in a political vacuum. In fact, a good many integration movements could have been primarily politically inspired. Also apart from the interdependence between politics and economics, economic integration is not an end by itself; it is a means to an end and the end is essentially a political goal. Even so whilst, a successful integration would require effective political understanding and goodwill among its members, complete political unity need not be a *sine qua non* especially in the early phases of economic integration.

21. Bela Balassa, *Ibid*.

They include:

(i) the free trade area, which implies the removal of quantative restrictions and customs tariffs;

(ii) the customs union, which unifies the tariff of the countries within the area against outsiders;

(iii) the common market, where all restrictions on factor movements within the area are abolished;

(iv) the economic union, where economic, monetary, fiscal, social and counter-cyclical policies are to some extent harmonised;

(v) the supernational union, where the respective governments abandon completely their sovereignty over the policies listed above and a supernational authority issues binding decisions.

Like most classifications, these are somewhat arbitrary. Some forms of market integration may well fall within these categories. The first three stages concern mainly trade and factor integration but more often than not such measures require a complementary payments arrangement to make them work. And beginners in the field of integration usually start somewhere between the first two with or without some elements of the third category. West Africa squarely falls within the beginners class. The last two stages which are very advanced would have very little chances in most LDCs for a start.

Although these forms of integration mentioned above represent varying degrees of economic integration, they nevertheless share two basic characteristics. First, they promote expanded intrazonal specialization and exchange through the reduction or elimination of trade restrictions among the union members; secondly they entail discrimination of one kind or another against non-member countries.

(ii) THE RATIONALE OF INTEGRATION.

The driving force behind the widespread interest for economic integration in Africa is two-fold. The first motive is political. As noted earlier, colonialism in Africa left behind it a geopolitical configuration of divisions and fragmentations. Many of the new African states, although nominally independent, were so small and weak both politically and economically that they had very little prospect of rapid economic development on their own. This also made them extremely vulnerable to external pressures, which worked to perpetuate African dependence upon foreign powers. There was therefore a generally inspired feeling in Africa during the 1960's to free the Continent from its external dependence and to provide the safeguards and benefits of interdependence through the achievement of economic integration of one kind on another.[22]

The second, and by far more fundamental reason is economic. Given the micro-states and the export-oriented, lop-sided, poor economic structures inherited from the colonial regime, which needed reconstruction, integration was seen as a means of helping to overcome the disadvantages of small size and of making possible a greater rate of balanced economic growth and development. As the UN Committee for Development Planning put it:

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22. At the more economic level, regional economic co-operation including inter-governmental organisations, on which the ECA has been on the vanguard, has been encouraged. But at the more ideological plane, if only extreme, there was the Pan-African movement which had as its goal continental government of United Africa. Achievement on both counts however have been minimal. See C. Legum (ed) Africa Handbook. 1969, P.541

> "The creation of unified multinational markets would make possible faster expansion and greater economic diversification of the African economy and particularly of its industry. It would also enhance productive efficiency by permitting increased specialization and the operation of industries on a more economic scale. Further, it would help in overcoming barriers to development appearing in foreign trade with the developed parts of the world."[23]

To this one might add that wider markets, which integration is bound to bring about, would, ceteris paribus, attract more foreign capital and create more employment opportunities.

Thus it could be said, in a nutshell, that the key rationale of economic integration in Africa to-day is to accelerate balanced growth in the partner countries - whether in the short or in the long-run. Therefore, freeing trade or factor movements is not an end in itself but a means to reach higher levels of output. Indeed, the judgement on the benefits of the integration process has to depend on whether, on balance, the area's growth rate is faster than it would otherwise be or not. As already indicated, there is very little doubt that the marginal growth contribution which integration holds out for LDCs in the forseeable future underlines the cautious optimism with which most African governments have so far approached economic integration issues.

Of course, it all depends on the future of the industrial sector in Africa. Ironically enough, one of the major objective functions of central planners in

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23. UN, Economic Co-operation and Integration in Africa, Three Case Studies, New York, 1969, P. (iii) (ST/ECA/09).

LDCs is the expansion of the industrial sector, a policy which would have suggested a much more positive attitude to integration than the case appears to be on the African continent at the moment.

5. The Objective of the Study.

The aim of the present study is not to establish a grandoise blueprint for a free trade area or customs union in West Africa. If anything, the objective is to assess the real gains or losses, resulting from integration based on existing but under-utilised industries in which economies of scale exist, which would justify any arrangement for trade liberalisation in the products of such industries amongst the Central West African States of Ghana, Togo, Dahomey, Ivory Coast, Niger and Upper Volta. In order to identify, indeed to quantify the real gains from integration, an estimate of the increase in intra-regional trade flows arising out of the integration-induced trade liberalisation amongst the six would be made with a view to reaching a policy conclusion that might be helpful in framing future policy. The study will also examine the implications for public revenues of multilateral tariff disarmament in the area.

Trade in manufactured goods amongst the six states is at present of minute proportions. Despite this, economic development within the "region" has taken place in a geographical uneven manner and integration is bound to exaggerate this tendency. An aspect of our study will therefore be devoted to the question of equitable balance of gains from integration. In a nutshell, it is the primary objective of this study to explore on the basis of the technique of evaluation (explained elsewhere) employed and the industries studied what possibilities and problems there are for economic integration in

West Africa among the countries under review. Indeed, we seek to answer the question: Do the aforementioned six states stand to gain from economic co-operation and if so, how can these gains be equitably distributed among them? In view of the necessarily limited number of industries on which this study is empirically based, however, our findings, which is intended to be indicative, can be treated as provisional pending a wider study of old but potential integration industries in the area.

6. The Choice of Integration Candidates in West Africa.

One of the problems one faces in a study of this nature is the choice of integration candidates. What factors should guide one in selecting the economies to be considered for integration?

Like building a cathedral in the Middle Ages, the process of any fruitful economic co-operation requires hard work, long-term planning and persistent effort on part of the prospective members. There are no ready-made, simple solutions. Although the ECA[24] wishes to see the emergence of a West African economic community embracing all the 14 states of the sub-region, this, for political reasons, has not proved very feasible. In selecting and considering Ghana and the Entents States as the possible nucleus for a wider economic co-operation in West Africa we have been influenced by a number of factors.

Firstly, there is the advantage of a long tradition of economic co-operation. As we shall see later the Entente States were formerly French colonial territories and they inherited not only common external tariffs and fiscal

24. With the exception of the white-ruled countries South of Zambesi river, the UN Economic commission for Africa divides up Africa into four sub-regions and hopes to facilitate and indeed accelerate economic integration on a continent-wide basis by encouraging effective and purposeful co-operation in each sub-region. The countries comprising each subregion are:-

systems and administrations but also formed the Conseil De L'Entente at the eve of independence in 1959 in order to continue to enjoy the benefits of economic co-operation. They therefore already possess an institutional framework and administrative machinery for economic co-operation which could be tapped in reshaping and enlarging the existing body. It is often difficult to see how a multi-national economic community can come into being without several years of preparation and the achievement of specific objectives consistent with the over-all aim of integration. Even in Europe the formation of the EEC, which has prove a success story, was preceded by a number of co-operative endeavours, such as the Iron and Steel Community, the Coal Community, the Benelux Customs union, and so on.

Economic expediency and geographical continguity point to the desirability for the inclusion of Ghana in the "enlarged" Entente. Except for the southern coastal strip, Ghana is surrounded by the Entente States. Bounded to the East by Togo, to the North by Upper Volta and to the West by Ivory Coast; Ghana because of the differentials, has been caught up in the network of smuggling on both sides of its border.

North Africa:	Algeria, Libya, Morocco, Sudan, Tunisia and United Arab Republic.
West Africa:	Dahomey, Gambia, Ghana, Guinea, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Seneral, Sierra Leone, Togo and Upper Volta
Eastern Africa:	Botswana, Burundi, Ethiopia Kenya, Lesotho, Madagascar, Malawi, Maubitius, Rwanda, Somalia, Uganda, Tanzania and Zambia.
Central Africa:	Cameroon, Central African Repulic, Congo (B), Congo (K) (Zaire Rep.) Chad, Gabon.

See UN ECA, Resolution 142 (VII), 7th Session, 1965

By joining the existing Entente to remove the artificial barriers to intra-regional trade, Ghana would be saving itself not only the revenue it loses annualy through smuggling but would be in a position to increase its volume of trade with its neighbours. To think that effective economic co-operation can take place abruptly between countries in international co-operation without a long period of gestation would be painfully unrealistic.

Secondly, economic integration calls for a good deal of political goodwill among its members. The Entente seems to possess this political goodwill. Having survived the first trying decade, however minimal its achievements, the Entente has come to stay. It may be true that economic integration requires a certain amount of direct surrender of political authority to the supreme decision-making body of a given economic community. It is also true that the present inheritors of political power in West Africa - if not Africa as a whole - have an entrenched interest in maintaining the authorities and boundaries of the national states, even where individual independent states can hardly ever satisfy their economic expectations within the national boundaries they have inherited.[25] However, it is idealistic to regard political unity as an indispensable precondition for economic co-operation in the circumstances of West Africa. It just cannot work. The experiences of the early 1960's show that this doctorinaire approach

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25. The tiny state of Gambia is a case in point. Virtually surrounded by Senegal, Gambia, which has very little chances of developing on its own has so far rejected any form of integration with Senegal which might threaten or jeopardise its political independence.

which captured the imagination of the leaders of the so-called Casablanca group of countries was at best unachieveable and at worst a mere pipe dream.

Provided prospective members of an economic community are willing to delegate some political functions to the decision-making authority of the economic community which it might need to carry out its functions effectively, political union need not precede economic union at least in the early stage of co-operation. Within the Entente there is effective political understanding to permit fruitful economic co-operation. Ghana, for its part, though an anglpphone state, has developed a new bond of political friendship with the Entente states. During the hey-days of Nkrumah regime relations between Ghana and its Entente neighbours were at their lowest ebb but since the overthrow of the radical regime in 1966 the subsequent governments of Ghana had taken practical steps to normalise relations with the Entente states. In fact, Ghana and the Entente members have had a number of meeting at the highest official level to discuss matters relating to economic co-operation.

Thus the present state of political relations among the six can be said to be conducive to effective economic co-operation.

Thirdly, there is the problem of external influences to contend with. The granting of political independence did not fundamentally alter the economic relationships between West African countries and their former colonial masters; this is particularly true of France and her former colonies.

Because of West Affica's different Social and political history it faces different sets of external influences and orientations and is subject to the strains and stresses of external economic and political pressures arising therefo

therefrom. It would be difficult to quantify the degree of these influences or even their effectiveness but few would deny their existence. Of particular mention here is the relationship between the EEC and the Associate states of West Africa. All the French West African countries except Guinea are associated with the EEC under the Yaounde Convention. Although the Convention does not debar the Associates they cannot alter their customs duties or charges without submitting the proposed measures and methods of applying them to the Association Council.[26] What this means in effect is that if the West African Associates want to form a customs union with other African countries, the consent and concurrence of the EEC with respect to tariff changes must be sought. This imposes a limitation on the freedom of the Associates.

Even so with respect to the six countries under review external influences are likely to be a source of encouragement rather than a hinderance. All the Entente member states are former French colonies and France is bound by its 1961 Treaty with the Entente to protect and foster the essential interests of the organisation. Although Ghana is neither a former French territory nor a francophone state, yet the French government has lately shown a considerable interest in the economic development of Ghana[27] and is therefore likely to take a permissive view of Ghana's accession to the Entente, a move which would have a good chance of approval both by British and American governments.

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26. Convention of Association between the EEC and the African and Malagasy states associated with that Community and Annexed Documents, 29th July, (16 16(2) and Protocol No. 2,3(1). This has now been superseded by the Lome Convention (see chapter 2).

27. It is known that the French government actively supports the recent studies aimed at establishing closer economic co-operation between Ghana and the Entente States. In view of the close politico-economic relations between France and the Entente States, the former exercises great influence over the latter. More importantly, France has tacitly encouraged Togo and Dahomey to utilise Ghana's excess power at Akosombo Dam. See Economic Survey, 1969, P.80. Also see the Quarterly Review, Entente Africaine, No. 6, March 1971, PP. 8-9.

Partly because investors supported by the latter would be producing and selling to a larger market, and partly because they are not opposed to the idea of integration in principle in this region.

Fourthly, some emphasis is often placed on economies in similar levels of development in choosing integration candidates. Perhaps, the main justification for this emphasis derives from the desire to avoid the polarization of development and its cummulative effects in any part of an integrated market. Inevitably the formation of "laisser-faire" customs unions would set the market mechanism to work in a desequalizing manner. Because the disequalizing forces are likely to be sufficiently powerful for such unions to be unacceptable to the weaker countries, the hope for economic integrations appears to lie with "regulated" integration in which the gains can be seen to be not only large but in which an acceptable strategy of distribution of the benefits has been achieved.

In the context of the Entente-Ghana situation we envisage the emergence of a regulated union that would take adequate measures to ensure that the loss of revenues by, and the polarization of development in, some members of the union are kept within tolerable limits. Regulatory machinery for equitable distribution of the gains and losses arising from integration will definitely take into account the differences in the levels of development that might exist between the six countries under consideration.

The six share many common basic structural characteristics of underdevelopment, although this is not the same thing as saying that the level of economic development as measured by per capita output or income is everywhere the same.

In terms of GNP per capita, in itself a dubious index of development, the area would fall under three categories. Countries in the first category (Ivory Coast and Ghana) have each a per capita income of US $200 or more; the second group (Togo) has a per capita of US $100 or more whilst the poorest group has US $50 or more each. Beyond the disparity in per capita income levels there is also the fact that the majority of existing industries are to be found in the two most highly populated coastal countries, the Ivory Coast and Ghana. In 1967 the Entente had a total trade turnover of around US $850 million. Of this Ivory Coast accounted for 80% of the exports and 60% of the imports. So there are already disparities in economic development within the region.

But this is both the source of weakness and strength of the case for economic integration in the region. By applying the appropriate distribution formulae a more even development can be achieved. It is of course important to realise that the quest for equality can be pushed too far. Inequalities within an economic grouping may not be solely caused by union; national characteristics and work habits do play some part. In fact, too determined a pursuit of equality in the distribution of gains within the union could result in generally slower rate of growth for the entire body.

Furthermore, it might be that integration is easier among many than among few states. In a larger group, the strains of integration can be more widely distributed and there is not the concentration of discontents that is probable in a union of very few states, although a larger union is not necessarily easier to form than a smaller one. Thus given the present set-up of the Entente, the other members other than Ivory Coast would want Ghana in as a counter-weight against the predominance of Ivory Coast since Ghana has a

manufacturing sector comparable to that of the Ivory Coast.

From the foregoing we can see that the criterion of similarity in the level of economic development, despite its merits can hardly be rigidly applied to Central West Africa in the selection of integration candidates. And in spite of the fact that the Entente does not conform to this criterion, it nevertheless has a good chance of being the ultimate building block of a West African Economic Community.

Finally, the thorniest single problem in selecting the prospective members of a customs union relates to the availability of date for quantitative analysis. For unless the right type of data can be obtained in the right amount, it would be difficult to embark on a quantitative estimate of the possible effects of integration - both in the a priori and a posteriori senses. Although the paucity of data in most parts of the LDC's is nothing new some areas are better than others. A preliminary investigation with respect to the availability of data for the present study is quite encouraging.

A considerable amount of information is obtainable, among others from sources in Accra and Abidjan. And where data are lacking proxies in form of estimates might be used. On the whole it is important to remember that the geographical limitation of the study to cover six countries does not in any way conflict with the broader aims of economic co-operation in West Africa; indeed, it is hoped that this study will make some sort of positive contribution to the idea. In more ways than one, the geographical limitation was necessary in order to keep the study within manageable dimensions and because, a priori, the opportunities for co-operation in development amongst the six states appear to be more and easier to realise in the fairly near future than would be the case with a larger or more widespread group of countries like

the UDEAO or even with a smaller group without a tradition of economic co-operation. Even so it is intended that the study will draw attention to the possibility, or even necessity, of intergovernmental co-operation between the six and non-members.

CHAPTER TWO

ECONOMIC SETTING AND DEVELOPMENT PERSEECTIVES

The introductory chapter has tried to develop a historical link to this study, which in the present chapter focuses on the basic facts about the economic background of the West African sub-region. Our subject is Economic Integration between Ghana and the Entente States. But to acquire, at the onset, a realistic appreciation of the opportunities, problems and prospects of economic integration in the aforementioned six states, one has to examine the economic setting, development perspectives and recent economic and political developments in the entire sub-region which have immediate bearings on economic co-operation.

1. RESOURCE ENDOWMENT

West Africa is a vast region, as far as mere physical size goes and the fourteen countries[1] of the subregion have a combined population of about 108 million spread over an area of 6 million square kilometres (2,380,000 square miles). In spite of this size of population (about $\frac{1}{5}$ of all Africa), the average density of the region is a mere 22 persons per square kilometre. Even so the mean figure conceals the wide variations in local and national densities[2]. On the international scale the density of population varies from one person per sq. km. (Mauritania) to 69 persons per sq. km. (in Nigeria) (Table 2:1)

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1. The fourteen countries of the sub-region mentioned earlier are (by ECA definition): Dahomey Gambia, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo and Upper Volta. See the "Symposium of West African Integration". In the Nigerian Journal of Economic and Social Studies, Vol. 5 No. 1 March, 1963, pp. 9-77.

2. The three land-locked countries, Mali, Niger and Upper Volta, together with Mauritania, account for over 60% of the total area

TABLE 2:1

BASIC ECONOMIC DATA

	POPULATION (1969 Estimates in Mns)	RATE OF BIRTH (1969)	TOTAL LAND AREA (in thousand sq km)	DENSITY (1969) (Persons per sq km)	GNP (in U.S. $ mn at Current Prices 1968	GNP PER CAPITA IN U.S.$	RATE OF GROWTH OF GNP, 1963-65	Percentage of L.F. in Agric. Sector	URBANIZATION (1968)	LITERACY RATE	SCHOOL ATTENDANCE RATE (%) (1968)	HEALTH - PEOPLE PER DOCTOR 1963	PURCHASING POWER DENSITY[d] (thousands of dollars per sq km)
DAHOMEY	2.6	2.8	113	23	175.9	68-76	2.6	75	12	20	31	21,000	1557.5
GAMBIA	0.4	2.4	10	40	26.4	66	n.a	n.a	12	n.a	n.a	16,000	2640.0
GHANA	8.6	2.6	239	36	2074.0	241	2.6	61	29	25	n.a	12,000	8677.8
GUINEA	3.8	2.2	246	15	232.7[b]	61	n.a	80	20	10	50	21,000	945.9
IVORY COAST	4.1	2.3	322	13	1174.5	286	8	n.a	25	20	49	19,000	364.6
LIBERIA	1.1	2.9	111	10	300.3	273	n.a	75	n.a	5-10	n.a	11,000	2705.4
MALI	4.8	3.1	1202	4	295.0[c]	61	n.a	n.a	10	5	28	40,000	245.4
MAURITANIA	1.1	2.2	1806	1	169.4	154	6	n.a	n.a	1-5	9	27,000	156.0
NIGER	3.9	2.7	1267	3	283.5	73-90	8	95	5	5	10	65,000	223.7
NIGERIA	63.8	2.0	924	69	4092.0	64-80	5.5	69	25	20	35	34,000	4428.6
SENEGAL	3.7	2.7	196	19	703.6	190	4.6	85	27	5	40	20,000	3589.8
SIERRA LEONE	2.5	1.5	72	34	300.0	120	n.a	80	11	10	n.a	19,000	8823.5
TOGO	1.8	2.6	57	32	208.6	115	6	n.a	17	5-10	42	34,000	3659.6
UPPER VOLTA	5.3	1.9	274	18	188.1[b]	39-52	3.2	94[a]	7	8	9.5	63,000	686.5

NOTE: a = including livestock
b = figure is for 1962
c = figure is for 1964/65
d = Defined as GNP per unit of area.

SOURCES:
(i) UN., Population Estimates (Map no. 1800 Rev. 2) May, 1970.
(ii) Plessz, Problems and Prospects of Economic Integration in West Africa.
(iii) P. Robson, Economic Integration in Africa (pp 64-65)
(iv) Legum (ed.) Africa Handbook.
(v) Legum (ed.) Africa Contemporary Record, 1968-69.
(vi) UN., Economic Bulletin for Africa, Vol. V., 1965.
(vii) IMF, Surveys of African Economies, Washington D.C., 1970
(viii) Jeune Afrique, Africa, 1971.

Even with adjacent territories there are great constrasts. Compare in this respect Niger's density of 3 persons per sq. km. with the figure for Nigeria. To a lesser extent the same is true of Liberia with its 10 persons per sq. km. compared to Sierra Leone which has over 30 persons per sq. km. Within national borders the general characteristic feature of uneven population distribution pervades. Consider that whilst Northern Nigeria has few persons per sq. km. the Ibo heartland of the East has one of the highest densities on the African continent.

Partly because of the lack of water in many parts of the region and partly because of the over-concentration of development projects in the Southern Urban Centres, which attracted rural drifters, one can find extremely high population densities in some areas of the South and very low ones in the North. A second reason, which centres more on historical and sociological than geographic and economic factors, can be adduced to explain the irrational pattern of population distribution in West Africa. The era of slave trade, discussed in the previous chapter, and the inter-tribal warfare which it inspired must have resulted in the depopulation of large areas and in the development of high concentrations of population in other relatively inaccessible districts. This tendency was reinforced by later developments.

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but contain only 14% of the population. It may be noted that the 14 countries of East Africa which have the same size (6 million sq. km.) as West Africa and a combined population of 70 million have lower densities still. Of course, Africa as a whole is the most sparsely populated region in the world, apart from Antarctica and Oceania. With only 9% of the world's population Africa has about a quarter of the world's land surface. Thus pockets of population concentrations derive largely from history and sociology rather than from the stark land/man ratio that presses on most of Asia today.

Although the establishment of the most important population concentrations took root before the colonial conquest, the institution of common tribal ownership of land acted as a brake on large-scale migrations of people to other less densely populated tribal lands without a recourse to war. When the tribal warfare finally disappeared, however, following the consolidation of colonial conquest, the arbitrary "sharing out" of the region by different European nations and the introduction of different national laws and systems with respect to trade and movement of labour doomed any future hope of mass redistribution of population, through migration, to failure. Hence this problem remains and as we shall see later in this study the question (together with its implication) of migrant workers from the landlocked to the Coastal countries has important bearings on economic co-operation in West Africa.

In terms of agricultural resources, the vast span of the Subregion provides arable land of varying degrees of fertility, ranging from the rich rain forest belt in the South to the poor and dry, semi-desert soil in the North. Lying within longitudes 20° West and 15° East, and Latitudes 17° North and 10° South, the most striking features of the subregion are its great diversity in climatic conditions and topography. It stretches from (over, 1,800 miles) the rain forest region on the coast to the landlocked Countries on the Saharan border. There is hardly any generally-accepted geographical definition of West Africa. The region is neatly separated, but some of the Southern and Eastern boundaries are less precise.

However, for the purpose of this study the ECA definition referred to above is adopted[3].

In the area of primary agricultural production, West Africa contributes about 72% of the cocoa entering world markets. Over 76% of the volume of palm kernels and over 32% of the volume of palm oil which enter into the world commerce come from the region. The bulk of groupdnuts entering international trade come from two countries in West Africa, Nigeria and Senegal. Other export products of the subregion include: coffee, cotton, hides and skin, phosphates, tobacco, rubber, timber, plywood, sesame, bananas, pineapples and kola nuts.

The endowment in other natural resources is equally impressive. Vast reserves of hydro electric resources are present in certain parts of the region (Table 2:2). Nigeria produces both coal and petroleum. In fact, the Nigerian oil industry is at present enjoying a boom. By 1969 production had reached an all time height of 26.6 million tons. In the first quarter of 1970 it was 50% higher than in the same period in 1969 and by July 1970 it was nearly 80% higher than in July 1969. The production level has now reached a new peak of over 2.3 million barrels per day and it is estimated to reach the three million mark in 1980.[4]

3. In a way to describe West Africa as a 'region' is merely to use a geographical expression, and should not give the impression that it is already a single 'international economic region' or 'market area'. The area has never been an integrated market.

4. ECA, Summaries of Economic Data on Nigeria, 1970. Latest information shows that oil production as at end of September, 1974, has reached a new peak of 2,336,088 barrels per day and that the Nigerian National Oil Corporation in conjuction with Ashland Oil (Nigeria) Company have discovered oil South of Oguta Lake in East Central State. Already Petroleum revenue accounts for over 86% of federally collected revenue and this trend is likely to continue (See Barclays International Review, February, 1974; The Times, 11 June, 1973; West Africa, 9th September, 1974, and Federal Republic of Nigeria, Main Report of the Public Service Review Commission, Lagos, September, 1974.

Table 2:2.

ELECTRICITY AND GAS PRODUCTION IN WEST AFRICA

MILLION KWh	MONTHEY AVERAGES OR CALENDAR MONTHS							MILLION		KWh
	CHAD	DAHOMEY	TOGO	GHANA	IVORY COAST	MALI	NIGER	NIGERIA	SENEGAL	UPPER VOLTA
1964	1.31	1.66	0.98	40.7	15.2	2.12	1.24	85.3	16.4	1.55
1965	1.48	1.80	1.07	44.0	18.3	2.33	1.37	98.1	17.0	1.71
1966	1.79	1.92	1.27	47.8	23.0	2.64	1.64	106.6	18.5	1.82
1967	2.16	1.94	1.70	130.0	26.2	2.75	1.83	92.7	20.0	1.78
1968	2.56	2.20	1.60	215.7	31.0	2.90	2.10	92.1	20.6	1.90
1969	3.17	2.37	1.65	231.0	36.7	3.12	2.50	104.0	23.3	2.10
1970	3.49	2.79	1.88	243.3	43.1	3.34	2.97	129.1	23.9	2.26

SOURCE: UN, Monthly Bulletin of Statistics, Dec. 1971

Other minerals are also found in West Africa. Over 60% of the world production of gold derive from Africa and the bulk of which outside South Africa come from West Africa; 96% of the world production of diamonds come from Africa the bulk of which outside the Congo derive from West Africa. Over 45% of world output of manganese is produced in Africa with West Africa accounting for 31%. Also West Africa produces over 27% of the African output of iron ore. There are reasonable quantities of bauxite too. Extensive deposits of other minerals in the region have been reported but the extent of these are not yet determinable.[5] Thus it follows from the foregoing that the obstacle to integration and progress in West Africa cannot be seriously blamed only on sheer lack of natural resources. Obviously much of the problems are man-made.

2. BASIC STRUCTURAL CHARACTERISTICS

In general, the level of development of any region is, to some degree, a function of the structure of its economy. And the level of development itself is reflected in the structure of the economy. West Africa, in the socio-economic sense, is typically an underdeveloped area, exhibiting the common characteristics of underdevelopment. Although these characteristics may be many, the three more important ones upon which others relate with respect to integration are touched upon.

5. See R.H. Green and Seidman, "Unity or Poverty?" The Economics of Pan-Africanism, Penguin, 1968 p. 53. Also see N.A. Cox-George in The Nigerian Journal of Economic and Social Studies, Vol. 5 No. 1 March 1963

First, the principal feature of the economic structure of Africa is the predominance of agriculture. West Africa is no exception.

The average share of agriculture, including livestock, forestry and fishing, in the total GDP of the subregion is between 50 and 55 percent[6], though this average figure covers important variations among the countries. However, in three of them (Liberia, Senegal and Sierra Leone) the contribution of this sector is only of the order of 30 percent. The reason for this below average figure is not far to seek. Extractive activities are very important in Liberia and Sierra Leone whereas Senegal has one of the more developed industrial sectors of West Africa. There is also a second reason: agriculture in Senegal is centred mainly on groundnut production, which is one of the victims of natural substitutes on the world market. The government's agriculture diversification programme, whatever its achievements, has not substantially altered the picture.

A further general feature of the agricultural sector, aside from its predominant position, relates to the dichotomy between the non-monetized or subsistence and monetized subsectors. In all the countries under discussion the non-monetized subsector accounts on the average for more than half of agricultural production, and for considerably more than half in most other LDCs. Unlike the subsistance agriculture, the monetized subsector is usually smaller and is mainly oriented, directly or indirectly towards exports. Comparative data showing the importance of the non-monetized subsector is available for the Francophone countries (Table 2:3). The table clearly underscores the points made above.

6. UN ECA, Economic Co-operation and Integration. Three Case Studies, 1969 (ST/ECA/109), p. 50.

TABLE 2 : 3

PROPORTION OF AGRICULTURAL PRODUCTION IN GROSS DOMESTIC PRODUCT AND NON-MONETIZED PRODUCTION IN AGRICULTURE

(PERCENTAGE)

COUNTRY[a]	YEAR	Share of Agricultural[b] Production in GDP	Proportion of Agricultural Production which is non-monetized
SENEGAL	1964	28.9	44.3
IVORY COAST	1964	38.4	48.4
TOGO	1963	54.5	51.2
MAURITANIA	1961	48.1	60.5
DAHOMEY	1959	52.2	64.4
MALI	1962	51.0	72.5
NIGER	1962	60.7	76.8
UPPER VOLTA	1964	51.8	84.4

Note: a = Countries are ranked in increasing order of the proportion of their agricultural production which is non-monetized.

b = Including agriculture, livestock, fishing and forestry.

Source: UN. (Economic Commission for Africa), Three Case Studies, ST/ECA/109, 1969

The second important structure of the West African economies is characterised by the weakness of the industrial sector. This of course follows from the first point. For the entire subregion, the share of the manufacturing sector in GDP, in 1966, was approximately 7% (Table 2:4). Again the share of this sector in total production for individual countries varies quite considerably. For three countries (Liberia, Guinea and Sierra Leone) the share of the industrial sector in GDP is around or above 30% (Table 2:5). As already noted, thanks to the importance of extractive industries in these countries, There are also some other countries comparising Ghana, Ivory Coast and Senegal whose manufacturing sectors are relatively more advanced than those of the rest. Manufacturing has one notable characteristic in this region: it depends to a great extent on agricultural production[7]. For almost all the countries, food processing accounts for between 60 and 80 percent of all manufacturing activities. Only in Ghana, Senegal, Nigeria and to a less extent Ivory Coast is manufacturing production relatively more diversified. This is illustrated in Table 2:6. In some cases the bulk of the processed food is, not surprisingly, exported. In Senegal, 62% of the gross output of the food industries was exported in 1962; 30% of the food processed in the Ivory Coast was exported in 1964.

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7. This is probably the resultant effect of the policy of industrialization based on import-substitution. Historically this form of industrialization had always started off with the processing of agricultural raw-materials and simple manufactures essentially to replace import but, quite often, with a margin for exports. See Arthur Lewis, "Industrialization in Ghana," 1953.

TABLE 2:4

RATES OF GROWTH OF GDP AND MANUFACTURING INDUSTRY, IN DEVELOPING AFRICA AND SUB-REGION, 1960-66

COUNTRY GROUPING	AVERAGE ANNUAL RATE OF GROWTH, 1960-66		MANUFACTURING AS A % OF GDP	
	GDP (%)	MANUFACTURING (%)	1960	1966
DEVELOPING AFRICA	3.2	4.2	11.1	11.8
NORTH AFRICA	3.8	4.6	14.8	15.6
EAST AFRICA	3.2	6.3	8.9	10.6
WEST AFRICA	2.9	5.5	5.8	6.7
CENTRAL AFRICA	0.5	-0.3	14.9	14.1

Source: ECA SECRETARIAT.

TABLE 2:5

ORIGIN OF GROSS DOMESTIC PRODUCT OF SELECTED COUNTRIES, 1964

(PERCENTAGE)

Country	Primary Sector[a]	Secondary Sector				Tertiary Sector				
		Total	Extractive Industries	Manufacturing	Constructors	Total	Commerce	Transport	Administration	Other Services
Ghana	51.4	14.4	2.5	7.5	4.4	34.2	...	...	...	...
Guinea[c]	53.8	24.8	8.9	2.6	13.3	21.4	3.0	3.0	7.8	13.6
Ivory Coast[d]	42.3	16.1	0.5	10.9	4.7	42.3	15.7	8.4	5.7	11.8
Liberia	28.0	36.0	26.0	4.0	6.0	36.0	11.0	6.0	...	...
Mali[e]	54.0	12.0	1.0	6.0	5.0	34.0	17.0	6.0	2.0	9.0
Niger[f]	61.0	11.1	0.4	4.6	6.1	27.9	...	...	...	...
Nigeria[e]	62.6	11.3	1.9	5.4	4.0	26.1	11.8	4.9	5.7	3.7
Senegal[e]	29.4	13.0	1.8	7.4	3.8	57.6	30.2	3.8	8.6	15.0
Sierra Leone[g]	30.2	26.3	17.7	5.5	3.1	43.5	14.0	7.1	17.5	4.9
Togo	54.0	15.2	4.9	6.6	3.7	30.8	11.2	6.3	4.9	8.4
Upper Volta	52.0	13.0	1.0	9.0	3.0	35.0	...	...	...	...

Note: a = Including agriculture, Livestock, fishing and forestry.
b = Government, in French-speaking countries, also includes private non-profit services.
c = 1964-65, estimated.
d = 1965
e = 1962
f = 1963
g = 1964-1965.

Source: UN., Economic Commission for Africa, Three Case Studies, ST/ECA/109, 1969, p.52.

TABLE 2 : 6

COMPOSITION OF GROSS OUTPUT OF MANUFACTURES IN SELECTED COUNTRIES

(PERCENTAGE)

Country	Year	Food Processing excl. fats	Vegetable oils	Petroleum products and coal	Construction materials incl. wood	Rubber Industries	Mechanical and elect. engineering and metal industries	Textiles and leather	Chemicals	Other Manufactures	Total
Dahomey	1959	63.9	-	-	0.4	-	17.7	5.1	-	12.9	100[a]
Ghana[b]	1966	37.2[c]	...	3.7	18.1	1.1	9.4[d]	10.2	11.6	8.7	100
Ivory Coast	1964	24.9	12.5[e]	-	16.8	-	22.0	17.2	3.1	3.5	100[a]
Nigeria	1962	22.3	19.7	-	12.2	12.0	14.1	6.3	1.8	11.6	100
Senegal	1962	32.3	44.1	-	...	-	3.6	13.1	4.1	2.8	100[a]
Togo	1964	62.5	12.1	-	3.8	-	-	10.0	-	11.6	100

Note: a = Excluding energy production
b = Output of establishments employing thirty or more persons.
c = Including vegerable oils.
d = Excluding motor vehicle repair shops.
e = Animal and vegetable fats and oils.

Source: Economic Commission for Africa, Economic Co-operation and Integration in Africa, 1969 p. 53.

A third but more recent economic feature of West Africa derives from the level of under-utilization of resources. In the conventional but "unsettled" theory of Development Economics, LDCs are generally categorized as "regions of disguised unemployment and underemployment" and both terms were meant to apply strictly to the traditional sector. But as further enquiries into these concepts[8] have shown, under-utilization of productive resources in West Africa, as indeed in most other LDCs, is not uniquely peculiar to the agricultural sector. It is now visible and undisguised in the modern sector as well. The key reason for this is deeply embedded in the sheer lack of equilibrium between the supply of, and demand for, labour (Table 2:7).

The excess supply of labour could be blamed on a set of socio-economic variables: (i) the general rural-urban wage differentials offer an added incentive to rural drifter; (ii) the rapid acceleration of schooling reinforced by high population growth in the countryside has speeded up the drift of young people to the towns; (iii) development and welfare expenditure have been concentrated disproportionately on towns; and finally (iv) "Capital deepening", in itself the by-product of derived development and borrowed automated technology, has tended to create some sort of technological unemployment. Disparities in the levels of unemployment range as shown in Table 2:7 between virtual full-employment in Niger and Ivory Coast to 26.6% in Nigeria in 1966.[9]

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8. For discussion on this subject see A. Lewis, "Economic Development with Unlimited Supplies of Labour," The Manchester School, May 1954; G. Ranis and J.C.Fei, "A Theory of Economic Development", American Economic Review, Sept. 1961, 51, P.53358; and H.T. Oshima, The Ranis-Fei Model of Economic Development, AER, 1963.

9. This abnormally high figure represent the immediate result of the disturbances which errupted in Nigeria in 1966. In the wake of the senseless mass killings of Ibos resident in the North by the Northerners, the surviving members of the former returned en masse to their region of origin (East) where they created a pool of unemployed labour force. But when the crisis turned into a shooting war the economy was placed on a war footing and recruitments into the army reduced the unemployment figure considerably. It is however not being suggested here that the figures for registered male unemployment, as in Ivory Coast and Niger, actully give the true picture of unemployment. The registration of unemployment in

TABLE 2:7

UNEMPLOYMENT (PERCENTAGE UNEMPLOYED)

	GHANA	IVORY COAST	NIGERIA	NIGER	SIERRA LEONE	KENYA	ZAMBIA
	F	E	F	E	E	E^7	F
1964	13.6	0.81	20.7	0.07	9.8	11.35	11.1
1965	11.3	n.a	20.9	0.08	11.5	10.80	17.6
1966	11.5	n.a	26.6	0.11	12.9	8.12	16.4
1967	16.7	n.a	20.0	0.09	13.6	n.a	12.2
1968	17.6	n.a	12.9	0.09	14.1	n.a	12.9
1969	15.0	n.a	12.2	0.19	14.7	n.a	15.3
1970	16.5	n.a	13.5	0.13	15.2	n.a	10.2

Note: F = Registered unemployed; E = Registered applicants for work; E^7 = Registered male applicants for work.

Source: UN, Monthly Bulletin of Statistics, December, 1971.

On the demand side, a number of factors making for the sluggishness of labour demand come readily to mind. Nearly always the government is the major employment sector partly because of its relative size and partly because the sluggnishness of the private sector forces it to go on expanding, sometimes into areas more suited to the private sector. But the government's ability to go on expanding is limited by its resources. Given the weakness of the indigenous private sector vis-a-vis the govenment to generate more employment, industrialization is often carried out by private foreign enterprises attracted by elaborate government incentives. But it would be wrong to pretend that the foreign investor and the government will never conflict. Indeed the chances would be really considerable where foreign investors behaved like oppotunist speculators. However, a workable balance of interests, even if sometimes delicate, can be maintained between governments and foreign investors. It must be recognised after all that private capital seeks profit and tends to operate on commercial lines. As former I.C.I. Chairman Sir Paul Chambers has said - "It is not part of the duty of any private enterprise company to use the funds of the stockholders to help the development of an underdeveloped country in such a way that the profits accruing to the shareholders are less than if the funds were used in some other way"[10].

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west Africa usually covers only the urban centres leaving out the rural areas and even in the cities a considerable number of the unemployed do not bother to register; they just live off their employed relatives. The available statistics have only been used as a first approximation.

10. P. Adamson, "UNCTAD 3: Make or Break for Development", Communications Ltd., 1972, pp.22. But whether this is an acceptable policy in the light of the development problems of LDCs today is really debatable.

Another factor which militates against the expansion of the modern sector on national basis stems from the increasing competition between the countries of the subregion. Projects exist for the establishment of new factories even when existing factories producing the same products in neighbouring countries are operating at less than full capacity. In some cases, such as Ghana from 1961 through 1965, under-utilization of capacity was also due to import restrictions which reduced the supply of necessary imported raw materials and components, but in many cases it is a reflection of the individual countries' desire to expand production to meet national demand and, within groupings like the UDEAO countries, to leave a confortable surplus for export to members of the Union.

There are, for example, three bicycle assemply factories in West Africa, in Ivory Coast, Nigeria and Upper Volta. The total capacities of the first two are 140,000 bicycles and 30,000 motor-cycles. Production was 32,000 and 750 respectively, in 1965, yet new bicycle assembly plants are about to go into operation in UDEAO countries. Existing breweries in the UDEAO countries operate at 50% capacity, yet new brewery plants are going into production. Similar examples can be given for cigarettes, shoes, soap, matches and so on. With regard to intra-regional trade in agricultural products, the same problem has arisen.

Animal products - a case in point which are the traditional export of the land-locked to the coastal countries are now being produced, through official protection and subsidy,[11] by the latter, at the expense of their suppliers from the Savannah zone. Ironically enough, this has been happening in the name of

11. Tariff increases by Nigeria in 1966 on meat and meat products could be said to be "clearly protective to encourage local production". See Economist Intelligence Unit, Quarterly Economic Review, Ghana, Nigeria, Sierra Leone and Gambia. (London) April 1966.

diversification policy, a new article of faith for primary producers, which derives much of its force from production possibilities without due regard to the prospects for demand.

3. PATTERNS OF PRODUCTION AND TRADE

The patterns of production and trade have very important bearing on the question of integration in West Africa. Despite the continued importance of the subsistence sector, the sub-region is highly dependent on foreign trade. Historically, as demonstrated in Chapter one, foreign trade has been the dominant influence on the development of West African economies. Their dynamic, monetized sector has grown out of and is still largely based on the production of a few tropical agricultural products and minerals for export to the industrialized countries, chiefly those of western Europe (Table 2:12 and 2:15).

On a continental scale, Professor Robson sought to identify the origins of the African patterns of trade and development. He distinguishes two main pattern of development in African Economies[12]. According to this classification the firs group of economies developed mainly on the basis of a growth of commercial mining or European agriculture, stimulated by large scale capital inflows from abroad.

These economies, it is argued, were characterised by the existence of European settler communities and Africans participated in economic life mainly as wage earners. Algeria, Rhodesia, Zambia, Kenya and Congo are among the best known examples in the category.

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12. P. Robson, op. cit. p. 67.

TABLE 2 : 8

WEST AFRICAN SUBREGION : SUBREGIONAL GROUPINGS AND THE DIRECTION OF THEIR EXPORTS AND IMPORTS. 1962-1965 AVERAGE

(PERCENTAGE)

Country Grouping	West African Customs Union[a]	West African Commonwealth Members[b]	Other West African Countries[c]	West African Sub-region[d]	France	Other European Economic Community	United Kingdom	United States	World
EXPORTS									
West African Customs Union[a]	3.8	2.4	0.4	6.6	50.8	14.8	2.1	8.9	100
West African C'wealth Members[b]	0.3	0.9	-	1.2	4.0	25.4	33.2	14.0	100
West African Sub-region[d]	1.4	1.3	0.1	2.8	18.9	22.1	23.2	12.3	100
IMPORTS									
West African Customs Union[a]	3.9	1.0	-	4.9	57.6	8.3	1.9	5.2	100
West African C'wealth Members[b]	1.0	0.7	0.1	1.8	3.4	17.4	31.3	11.0	100
West African Sub-region[d]	1.9	0.8	0.2	2.9	20.3	14.4	22.2	9.1	100

Notes: a Dahomey, Niger, Upper Volta, Ivory Coast, Mali, Mauritania, Senegal.
b Gambia, Ghana Nigeria, Sierra Leone
c Guinea, Liberia, Togo
d Fourteen countries of the West African Sub-region excluding Liberia and Guinea.

Source: ECA, Secretariat.

TABLE 2:9

WEST AFRICAN SUBREGION: COMMODITY COMPOSITION[A] OF SUBREGIONAL[B] IMPORTS, 1962-65 AVERAGE

(PERCENTAGE)

COMMODITY	COMPOSITION OF IMPORTS FROM		SHARE OF INTRA-SUBREGIONAL IMPORTS IN TOTAL IMPORTS
	WORLD	SUBREGION	
TOTAL	100	100	2.7
FOOD, BEVERAGES AND TOBACCO	19.4	49.1	6.9
INDELIBLE CRUDE MATERIALS ANIMAL FATS AND VEGETABLE OILS	2.1	14.2	18.3
MINERAL FUELS	6.2	9.3	4.0
MACHINERY AND TRANSPORT EQUIPMENT	26.4	1.9	0.2
OTHER MANUFACTURED GOODS	45.8	25.5	1.5

A = Based on the UN Standard International Trade Classification.

B = Excluding the imports of Gambia, Guinea and Liberia for which no data are available.

Source: UN, ECA, Three Case Studies, ST/ECA/109, 1969 P. 56

TABLE 2:10

TRADE BETWEEN GHANA AND THE ENTENTE

INTRA-REGIONAL TRADE OF GHANA, 1966 IN U.S. $'000

	IVORY COAST	UPPER VOLTA	NIGER	TOGO	DAHOMEY
EXPORTS	450	1,370	300	1,360	20
Agricultural Products	---	370	200	960	--
Manufactured Pfoducts	450	1,000	100	400	20
IMPORTS	1,300	2,660	970	120	--
Agricultural Products	180	2,660	970	120	--
Manufactured Products	1,120	---	---	---	--
BALANCE	-850	-1,290	-670	1,240	20

Source: Economist Intelligence Unit and SEDES.

TABLE 2:11

PROJECTED RATE OF GROWTH OF VALUE OF EXPORTS OF LDCs, 1960-75 COMMODITIES OF INTEREST TO WEST AFRICA

COMMODITY	RATE OF GROWTH LOW	HIGH
BANANAS . . .	3.7	4.0
COCOA . . .	3.0	3.3
COFFEE . . .	2.1	2.3
OIL SEEDS, etc. . .	2.6	2.6
COTTON . . .	1.7	2.5
RUBBER . . .	0.8	1.9
TIMBER . . .	3.3	4.9
TIN . . .	1.1	1.3
IRON . . .	5.6	6.2
PETROLEUM . . .	Minimum of 6.0	

Source: UNCTAD Document No. TD/34, Appendix A, (New York, 1968).

TABLE 2:12

WEST AFRICA'S DEPENDENCE ON MAJOR EXPORT CATEGORIES. 1965

One Category Countries (over 75% of Total Exports)		Two Category Countries (over 75% of Total Exports)
Raw Materials	Food Raw Materials	Raw Materials Fuels
DAHOMEY	GHANA	
GAMBIA	IVORY COAST	NIGERIA
GUINEA	MALI	
LIBERIA	SENEGAL	
MAURITANIA	TOGO	
NIGER	UPPER VOLTA	
SIERRA LEONE		

Source: Excerpts from African Research Bulletin, Vol. V, 1965 p. 931.

TABLE 2:13

WEST AFRICA: COMPOSITION OF EXPORTS. 1965

COUNTRY	TOTAL EXPORTS US $mn.	COMMODITY	VALUE IN US $mn.	% of TOTAL EXPORTS
NIGERIA	737.5	Oil Seeds and nuts	193.8	26.3
		Petroleum	190.7	25.9
		Cocoa Beans	119.6	16.2
		Vegetable Oils	68.0	9.2
		Tins and alloys	41.8	6.7
		Rubber	30.6	4.2
GHANA	291.0	Cocoa Beans	191.1	65.7
		Industrial Diamonds	18.9	6.5
		Timber	18.6	6.4
IVORY COAST	277.1	Coffee	146.8	38.3
		Timber	60.7	21.9
		Cocoa Beans	48.9	17.6
		Fruit (Bananas)	17.7	6.3
LIBERIA	131.0	Iron Ore	96.0	73.2
		Rubber	29.0	22.1
SENEGAL	128.0	Peanut Oil	53.2	41.4
		Peanuts	38.7	29.4
		Peanut Cake and Meal	110.8	8.4
		Calcium Phosphate	10.3	8.1
SIERRA LEONE	80.6	Diamonds (exl. industrial)	51.7	64.2
		Iron Ore and Concs.	15.3	18.9
		Palm Kernals	8.0	9.9
MAURITANIA	57.6	Iron	53.9	93.7
TOGO	27.1	Calcium	8.9	32.9
		Cocoa Beans	6.8	25.2
		Coffee	5.5	20.4
		Palm Nuts	2.4	8.7
NIGER	25.3	Peanuts	14.6	54.9
		Live Animals	4.2	16.4
		Vegetables	1.5	6.0
MALI	15.7	Live Animals	4.5	28.6
		Fish	3.1	19.9
		Cotton	2.6	16.6
		Peanuts	2.2	14.3
DAHOMEY	13.6	Vegetable Oils	7.0	51.2
		Oil Seeds and Nuts	3.7	27.0
GAMBIA	13.6	Oil Seeds and Nuts	7.0	52.6
		Vegetable Oils	4.3	32.1
		Fodder (Seed Cake)	1.9	14.3
UPPER VOLTA	11.4	Live Animals	5.9	52.3
		Oil Seeds (peanuts)	1.4	12.3
		Hides and Skins	1.0	8.9
		Cotton Fabrics	0.6	5.0

Source: Yearbooks of International Trade Statistics, 1965 and 1966 (UN., New York, 1967).

TABLE 2:14

EXPORTS AND IMPORTS OF WEST AFRICAN COUNTRIES, 1965

	EXPORTS			IMPORTS		
	A*	B	C	A	B	C
West Africa (Total)	20.9	17.5	19	20.7	19.4	22
Nigeria	8.3	13.3	13.3	7.6	13.7	13.7
Ghana	3.2	16.8	38.8	4.4	25.8	59.7
Ivory Coast	3.1	36.9	72.9	2.3	31.6	62.4
Liberia	1.5	72.2	135.0	1.0	55.6	104.0
Senegal	1.4	22.2	37.6	1.6	28.4	48.2
Sierra Leone	1.0	32.8	40.0	1.1	40.3	49.1
Mauritania	0.7	52.4	73.3	0.2	18.3	25.5
Guinea	0.6	21.8	15.3	0.5	20.5	14.4
Niger	0.3	14.0	7.8	0.4	21.3	11.9
Togo	0.3	19.9	16.9	0.4	33.3	28.1
Mali	0.2	5.5	3.5	0.4	14.7	9.6
Dahomey	0.1	8.7	6.1	0.3	21.1	14.8
Gambia	0.1	23.1	18.0	0.1	30.8	24.0
Upper Volta	0.1	5.6	2.5	0.2	11.6	5.2

* Code : A = Percent share of African Total

B = Percent share of national GNP

C = Dollars per capita

Source : ECA., Economic Bulletin for Africa, Vol. IX, No. 1 (June, 1969).

TABLE 2:15

WEST AFRICA : DESTINATIONS OF EXPORTS, 1965

(BY PERCENTAGE SHARES)

Destination	EEC	UK	EFTA (excl. UK)	US	Sino-Soviet bloc	Japan	Australasia and S. Africa	Other
SOURCES								
DAHOMEY	80.3	1.5	1.5	2.9	-	1.5	-	12.4
IVORY COAST	61.2	3.4	0.9	15.6	2.1	0.9	0.1	15.8
MALI	5.8	1.3	-	-	3.9	-	-	89.0
MAURITANIA	69.0	25.0	-	3.4	-	-	-	2.6
NIGER	58.3	1.6	-	0.8	-	-	-	39.3
SENEGAL	85.7	1.4	3.3	2.0	0.4	1.9	1.2	5.8
TOGO	80.3	1.9	0.4	0.7	2.2	4.5	4.1	5.9
UPPER VOLTA	26.9	-	7.5	-	-	1.5	-	64.1
GAMBIA	35.2	42.9	1.1	-	-	-	-	20.8
GHANA	27.8	20.8	3.3	15.6	18.2	2.3	1.9	10.1
NIGERIA	36.1	38.0	4.5	9.8	2.9	1.2	0.1	7.3
SIERRA LEONE	21.6	66.9	0.1	1.1	-	0.1	-	10.2
GUINEA	16.7	4.1	29.9	23.3	-	0.2	-	25.8
LIBERIA	53.7	11.0	0.8	25.4	-	7.8	-	0.4
Average	47.0	15.7	4.0	7.7	2.1	1.5	0.5	22.1

Source: Direction of Trade Annual, No. 4, IMF/IBRD (Washington 1967)

TABLE 2:16

GHANA'S IMPORT TRADE WITH AFRICAN COUNTRIES

	1963		1964		1965		1966		1967		1968	
	US $/000	Percentage	US $,000	Percentage	US $,000	Percentage	US $,000	Percentage	US $,000	Percentage	US $,000	Percentage
TOTAL	18,256	100.0	22,762	100.0	13,247	100.0	10,743	100.0	11,100	100.0	11,974	100.0
Upper Volta	4,760	26.1	4,084	17.9	2,517	19.0	2,800	26.1	2,770	25.0	2,324	19.4
Nigeria	4,554	24.9	8,430	37.0	3,989	30.1	2,362	22.0	2,173	19.6	1,495	12.5
Morocco	1,998	13.3	910	14.5	296	19.7	640	21.1	602	19.1	466	23.4
Niger	1,124	10.9	1,066	4.0	583	2.2	890	5.9	841	5.4	799	3.9
Togo	876	6.2	6	4.7	108	4.4	127	8.3	109	7.6	222	6.5
Libya	762	4.8	3,716	-	1,268	0.8	-	1.2	523	1.0	1	1.9
Canary Islands	604	4.2	322	16.3	508	9.6	183	-	163	4.7	447	-
Egypt	358	3.3	390	1.4	685	3.8	731	1.7	1,199	4.7	2,365	3.7
Mali	2,240	1.9	3,298	1.8	2,607	5.2	2,269	6.8	2,112	10.8	2,803	19.8
Others	800	4.4	540	2.4	686	5.2	741	6.9	608	5.3	1,072	8.9

Source: CBS (Accra), Economic Survey 1968.

TABLE 2:17

GHANA'S EXPORT TRADE TO AFRICAN COUNTRIES

TOTAL	5,058	100.0	4,627	100.0	4,363	100.0	4,055	100.0	4,618	100.0	3,744	100.0
Upper Volta	1,770	34.9	1,078	23.3	355	8.1	9	0.2	6	0.1	16	0.4
Nigeria	1,330	26.3	1,424	30.8	2,072	47.5	1,566	38.6	1,145	24.9	1,461	39.0
Liberia	834	16.5	34	0.7	6	0.1	14	0.3	61	1.3	45	1.2
Mali	214	4.3	175	3.8	12	0.3	31	0.8	-	-	-	-
Sierra Leone	190	3.8	148	3.2	97	2.2	72	1.8	128	2.8	132	3.5
Morocco	48	0.9	190	4.1	-	-	-	-	-	-	8	0.2
Egypt	146	2.9	964	20.8	984	22.6	1,218	30.1	531	11.6	962	25.8
Others	526	10.4	614	13.3	837	19.2	1,145	28.2	2,747	59.3	1,120	29.9

Source: CBS (Accra), Economic Survey 1968.

TABLE 2:18

AFRICAN TRADE WITH DEVELOPING AFRICA AND THE WORLD, 1958-66 (PER CENT)

	IMPORTS, c.i.f.			EXPORTS, f.o.b.		
YEAR	AFRICA	REST OF WORLD	TOTAL WORLD	AFRICA	REST OF WORLD	TOTAL WORLD
1958	5.8	94.2	100	7.3	92.7	100
1959	5.6	94.4	100	6.8	93.2	100
1960	5.7	94.3	100	6.8	93.2	100
1961	5.5	94.5	100	6.6	93.4	100
1962	5.8	94.2	100	6.5	93.5	100
1963	5.6	94.4	100	5.9	94.1	100
1964	7.4	92.6	100	7.6	92.4	100
1965	7.4	92.6	100	7.7	92.3	100
1966	7.6	92.4	100	7.6	92.4	100
1960-66 Total	6.5	93.5	100	7.0	93.0	100

Source: UN (ECA), Economic Bulletin for Africa, Vol. IX, No. 1,

The second group of economies, like those of Ghana and Uganda, grew on the basis of development of a peasant agriculture, producing cash crops for export. It is further pointed out that the economies falling into the first group have become more industrialised and have enjoyed faster rates of growth than the latter, part of the explanation being the concentration of foreign investments during the Colonial period in these areas. This would also mean that income would be less evenly distributed and economic activities would tend to polarise around the major cities in the absence of countervailing policy measures. But in the second case where the rates of growth are slower because the techniques of production are simpler, the income distribution seems fairly more even.

Adopting this dichotomy only as a first approximation [13], we can say that West Africa falls within the second category. But, even so, it is also clear from this classification that both groups share heavy dependence on foreign trade. And it is this export-oriented development together with the allied problem of low capacity-to-import, a structural but intractable phenomenon amongst African countries, that imposes one of the severest constraints on their rate of economic growth.

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13. As Professor Robson himself emphasises, this dichotomy is useful only as a first approximation. Some African economies can conveniently come under any of the two categories. Ivory Coast is a case in point. It is one of the fastest growing economies in tropical Africa but mining has little or nothing to do with it. Although the country has few French settlers but they are as active in industry as they are in agriculture. Dakar (Senegal) was until independence the administrative centre for all French West Africa but it does not seem to be growing as fast as Abidjan, let alone faster. Furthermore although West Africa as a whole does not have white plantation enclaves of the East African variety, there are inequalities in development both within and between the countries of the sub-region.

This matter of high rate of economic dependence has been further aggravated by the limited range of primary exports of most of the countries - in contradistinction to the wide range of their imports of manufactures and food-stuffs. One or two commodities contribute the major part of export receipts. In seven of the fourteen countries a single commodity group accounts for over 75% of total exports and in the rest two commodity categories earn that much (Table 2:12). In some extreme cases a single commodity earns the bulk of the country's foreign exchange. Consider that for Ghana, cocoa accounts for 65% of export income; Liberia, Iron Ore (73%); Senegal, groundnuts (80%); Sierra Leone, diamonds (64%); and Mauritania, Iron (94%) (Table 2:13). Given the instability and unplanned character of the capitalist markets of Europe and North America, the major buyers of West African exports, and the comptitive efforts of the developing nations to increase their output in the face of low income elasticity of demand for most of West Africa's exports and of high income elasticity of demand for manufactures, the long-run prospects in terms of existing patterns for the earning of foreign exchange, and hence development, are poor.

Aside from the foregoing, intra-sub-regional trade had one more outstanding feature. It is that West African countries are principally not "each other's customer".

The share of their mutual trade in total external trade is very negligible, a mere 3% for the sub-region as a whole[14] (Tables 2:8 and 2:9).

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14. The intra-subregional trade figure is much lower than the continental average. Total intra-African exchanges for 1960-66 (average) stood at 7%. The comparable figures for Latin America and Asia are 9% and 25% respectively.

The factor that have shaped the pattern of intra-regional trade are mainly of two kinds; traditional, climatically induced specialization in the production of food stuffs and certain agricultural materials; and the existence of preference systems and monetary arrangements among groups of West African countries. Table 2:9 illustrates that about half of intra-subregional trade consists of food-stuffs, and another 14% is accounted for by fats and oils and some other crude materials. Even allowing for their relatively large volume of mutual trade in food-stuffs the countries of the subregion are able to supply to each other on the average only around 7% of their total food imports. But in spite of the limited scale of their intra-zonal trade, it is, nevertheless, very important for the landlocked countries whose major exports include live animals and meat (Table 2:13). For instance, intra-subregional trade accounts for over 80% of Mali's total exports. The corresponding figures for Upper Volta and Niger are 64% and 39% respectively (Table 2:15, Col. 8).

The only crude material of import entering intra-zonal trade is petroleum. With Nigeria's oil bonanza petroleum has become an important item in trade.

Nigeria now supplies a significant proportion of Ghana's petroleum imports - and the ratio is likely to go up in the future.

But it must be noted that intra-African trade represents the strongest component in the consumption of African exports by the developing world, being 7.6% of total African exports in 1966, compared with 4.1% for developing Asia and only 0.6% for Latin America (See, ECA, Economic Bulletin for Africa, vol. IX, No. 1, June 1969, p. 21).

As for sub-regional exchanges in manufactures they add up to only 1% of total imports of manufactured goods (or 1.5% of total excluding machinery and transport equipment).

The other factor affecting the geographical pattern of trade in West Africa derives from the existence of a preferential system and of monetary arrangements amongst most of Franco-phone West Africa. Reasons for this are essentially historical, as noted earlier. Exchanges among members of the West Africa Customs Union (UDAO), which will be discussed later, are relatively much larger than trade between that group and the rest of the sub-region (Table 1:7). The exports of other West African countries to the UDAO group have to clear the latter's non-preferential external tariff of 5-25% to which fiscal levies and supplementary taxes are added. Perhaps, no less important than tariff preferences in stimulating trade among UDAO members and in discouraging the latter's trade with the rest of the subregion are the existing monetary arrangements. The UDAO members have a common currency, CFA Franc, which is automatically convertible into French Franc,[15] whilst the separate currencies of several other West African countries are not freely convertible into CFA Francs or into each other. As if this is not enough, some of the latter countries maintain quantitative trade restrictions.

However, we shall see later that there are some forces at work likely to reduce these barriers to increased intra-zonal trade in the not too distant future.

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15. IMF, Surveys of African Economies, Vol. 3, Washington, D.C. 1970, p. 24.

4. CONDITIONS FOR EFFECTIVE INTEGRATION IN WEST AFRICA

On a rather general level members of a prospective economic grouping would require satisfactory assurances on three broad fronts prior to full-membership. First, each participating country should believe the benefit accruing to it - regardless of how this was calculated (short-term or long-term) - to be greater than could be achieved by remaining outside the Scheme. Secondly, that the members of the grouping would be, individually and collectively, very willing to make the necessary sacrifices and compromises towards the adoption of certain policies to realise the aims of the community and finally that the physical infrastructure, especially transport was or could be made efficient enough to facilitate a well-ordered intra-zonal distributive network.

The issues invloved in the preceding pre-conditions are inter-related and their exposition somewhat twisted. Political considerations enter even more strongly into these matters. In what follows we shall reorganise them and try to highlight the more important questions affecting effective integration in West Africa.

The first factor relates to similarity in the levels of development amongst the prospective members. It is often argued that the extent of the benefits which an integration scheme can bring depends largely on the economic development already achieved by the partner countries, on the form of their development, particularly industrial development[16].

16. Compare with F. Andic, et.al. A Theory of Economic Integration for Developing Countries, George Allen and Unwin Ltd. 1971, p. 45.

Other factors, most of which have been discussed above, such as size of their subsistance sector, their natural resources, climatic conditions as well as the supply of labour and capital are also important. But here we want to concentrate on the place of the size of the industrial sector in integration schemes.

It goes without saying that where one or more of the integration partner countries has a relatively large industrial sector, the partner countries may well resist the introduction of free trade and equal competitive conditions. They may, with good reasons, fear that their own industries would, unprotected, not be competitive in the area or that, given the tendency of industries within an integrated area to cluster in a few industrial growth points, their nascent industrial sectors would be unable to expand[17]. Thus, a priori, it seems that integration is most likely to be successful where industrial sectors are of a similar size and composition.

In West Africa, as we have noted in the previous sections, the size of the industrial sector (excluding extractive activities) is very small both in relative and absolute terms (Table 2:5). Although some countries (Ghana, Ivory Coast, Nigeria and Senegal) have rapidly expanding industrial sectors, yet their manufacturing output is scarcely up to 10% of GDP. For Ghana and the Entente group of countries the picture is virtually the same.

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17. This form of resistance has been very much in evidence in LAFTA, The failure of the LAFTA to reach agreement in 1967 on the second stage of drawing up the "Common List" of products to be unconditionally freed of trade restrictions at the end of the transition period in 1973 was a glaring case. The Arab Common Market, where the UAR has a more highly developed industrial sector than any other, has had the same trouble.

This is of course not to say that the level of development is everywhere the same but that the existing differences in structure and development seem to be within manageable proportions. Some kind of industrial rationalisation will certainly be needed in the less efficient countries before they can allow free trade in the products of their threatened industries. Also equally important here are the differences in tariff structure existing between prospective members prior to integration. We will discuss this in detail later in the study but it is necessary to underline the fact at this juncture that the larger the differences in tariff structures prior to union, the more difficult it will be to agree on the reduction and eventually the removal of tariff protection among members.

West African countries, it would seem, stand a fairly good chance of meaningful integration, if only because of the small size of their industrial sectors. For one thing, the small industrial sector means small vested interests that might oppose integration for fear of the painful adjustments possibly resulting from the removal of protection inside the integration area. However, if these vested interests are backed by governments - local or foreign - as often they are, they might succeed in imposing exceptions for themselves that would reduce the scope of possible benefits and the speed with which they can be obtained. Secondly, the smaller the industrial sectors at the inception of integration, the larger the scope for capturing the benefits of specialization through investment regional planning.[18]

18. The task of co-ordinating regional investment planning is by no means an easy job especially in a region where competing industrial sectors work below full capacity in the partner countries. The Maghreb countries are known to have faced this difficulty.
(See F. Kahnert, et.al. Economic Integration Among Developing Countries, CECD, Pans, 1969). On a smaller scale a similar situation is developing in West Africa.)

But it must be noted that groupings in which one or more countries have a significantly larger and more efficient sector than the others, like the position of Ivory Coast in the Entente States, can still bring benefits. Provided the larger countries do not produce all the goods which could be economically produced for the integrated market, a regional policy for investment planning and a satisfactory compensation arrangement could persuade the less industrially developed partner countries to abolish their trade barriers.

Another problem in relation to integration which West Africa faces arises out of the obstructing effects of extra-African, politico-economic ties and cleavages. On the economic front the economies of Francophone West Africa, except Guinea, are still closely meshed with those of the founding members of the EEC, in particular that of France. This is basically the by-product of the colonial history but it is a relationship that has been kept alive until now by the post-independence association with the EEC.

Whatever form economic co-operation in West Africa or part of it may eventually take, promotion of trade among the countries of the subregion is clearly one of the major objectives. This is borne out by the little that is known at this stage of the provisions of the Draft Treaty of Economic Community of West African States (ECOWAS) currently being signed in Lagos by the Heads of States of the prospective member states. In brief, the Treaty, among other things, provides for the establishment of customs union among the member states through the progressive elimination of tariff and non-tariff barriers to trade.[19]

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19. For details see chapter 5(6) of this thesis. Also see Federal Republic of Nigeria, Third National Development Plan, 1975-80, Vol. 1, Special Launching Edition, Lagos, March 1975, p. 36.

However, the obligations which the West African signatories have assumed under the new Lome Convention[20] which supersedes the second Yaounde Convention should not hinder trade relations between the West African associates.

Up till now, it was feared that the association of some West African countries with the EEC to the exclusion of others impedes the establishment of an all-embracing common market arrangement in West Africa. This fear might have been justified under the first Yaounde Convention because it made no differentiation between African and other developing countries. Article 9 of that Convention provided merely for such integration and co-operation arrangements with third countries if they did not offend the principles of any provisions for association. This meant that non-associated African States could not have been given more favourable treatment than that extended to the Community.

But no such constraint is embodied in the second Yaounde Convention. For it clearly states in Articles 13 that "Each Associated State may maintain or establish customs unions or free trade areas or conclude economic co-operation agreements with one or more African third countries at a comparable stage of development, provided that this does not lead to any change in the provisions concerning origin for the purpose of implementing this Convention".[21] The problem here of course is that the convention did not define the term "comparable stage of development;" hence there has been some ambiguity as to the countries in Africa to which this provision could be applied.

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20. "The EEC - ACP Convention of Lome" in the Courier, No. 31, Special Issue, March 1975.

21. See "Convention of Association between the EEC and the AASM associated with the community and Annexed Documents", July 1969, Article 13.

The Lome Convention between the EEC and the African, Caribbean and Pacific state (ACPs) goes a long way to clarify this matter. The ACPs are not required under Article 7(1) of the Convention to reciprocate by giving preferential customs treatment to EEC products[22] but in 7(2a) they are required to guarantee the community at least the most-favoured-nation treatment except, as Article 7(2b) stipulates, when there is a question of a relationship of privilege in the form of trade or economic relations between ACP states or between one or more ACP states and other developing countries.

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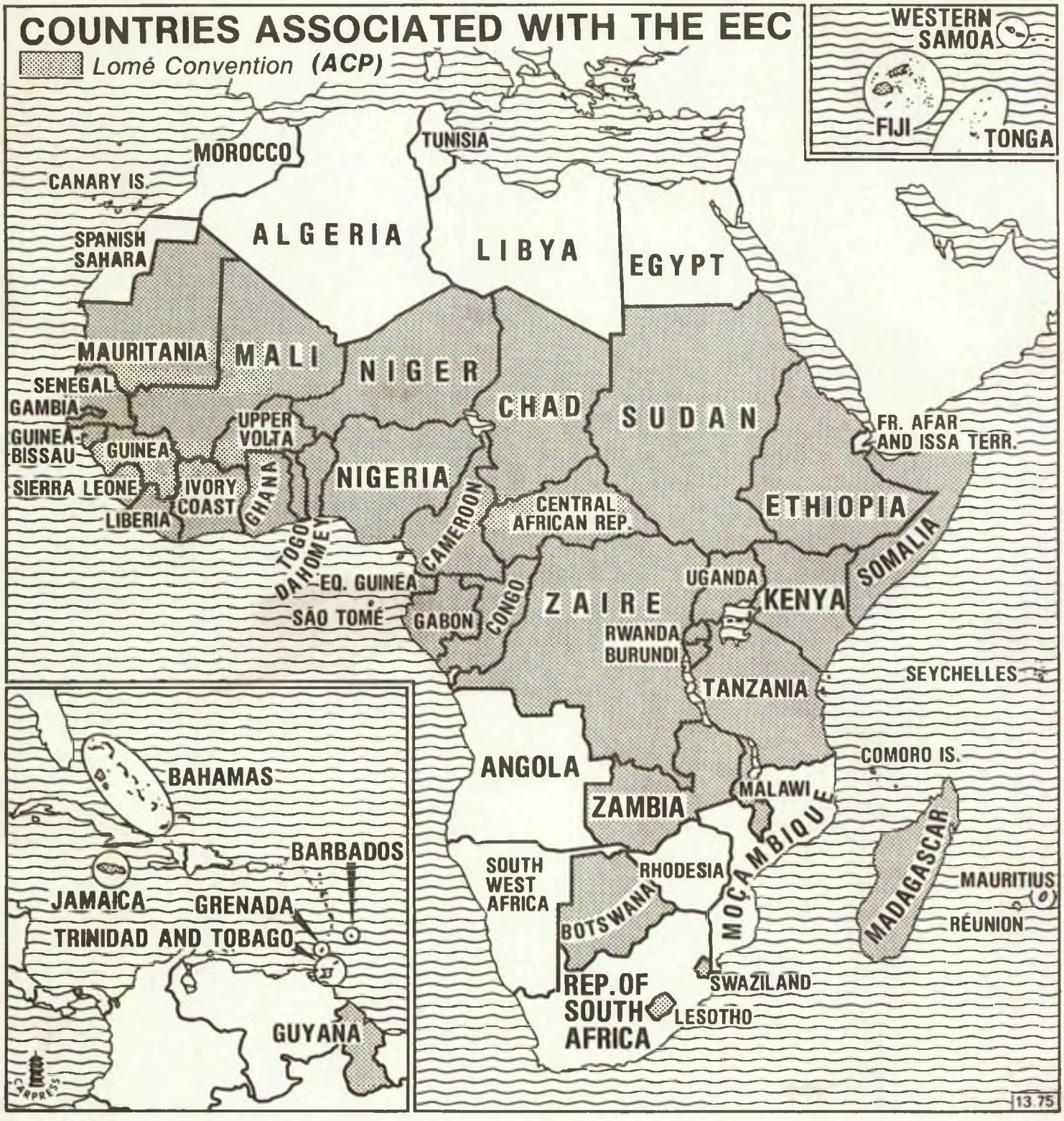
22. See The EEC-ACP CONVENTION OF LOME Op.cit. The most important innovation in the EEC-ACPs agreement, as far as the ACPs are concerned, is that the EEC has given up its insistence on reciprocity in commercial concessions. At the early stages of the negotiation the EEC members considered the principle of reciprocity indispensable in the light of the GATT definition of a freetrade area. They argued that it would not only maintain the contractual character of the agreement but also would ensure its durability. In reply, the ACPs called attention to the Generalised Systems of Preferences (GSPs), which had their origin in UNCTAD and in which no reciprocity is stipulated or given. In the end the EEC representatives piped down. The advantages of non-reciprocity from the standpoint of ACPs can be viewed from at least two directions. The first relates to the revenue effects. More recent estimates of the actual margins of preference extended by the Yaounde countries to EEC are not readily available; but calculations made by the community on the basis of 1964 figures, show that the average margin of preference extended by the countries then belonging to UDEAC (Cameroon, the Central African Republic, Congo and Gabon) was 17%. In the case of countries in the UDEAO (Dahomey, Ivory Coast, Mauritania, Mali, Niger, Senegal, and Upper Volta), the margin was 10%, and in that of Madagascar 8%. Given the volume and value of imports from the EEC to the ACPs, the revenue effects of the principle of nonreciprocity on the budgetary needs of the ACPs could be substantial. Secondly, free access to the EEC market for 99.2% of imports originating in the ACPs (products covered by the EEC common agricultural policy account for the rest (i.e. 0.8%) and are not affected by this policy) might stimulate industries that export to the EEC (See EEC Information Bulletin , Feb. 1975). This expansion, if it endures long enough, should stimulate an an inflow of a capital to the countries concerned, and so promote growth.

Map 2.1



Source: THE EEC COMMISSION

This is generously interpreted to mean - as indeed Article 7 of Protocol No. 2 annexed to the Treaty defines it - that either two or more ACPs or one or more ACPs on the one hand, and one or more neighbouring non-ACP countries on the other, would be free to form a regional economic co-operation on the basis of non-reciprocity of trade obligations.

Thus, with respect to future trade relations in West Africa, it can be asserted that the Lome Convention is in some ways a "blessing" rather than a hinderance. Firstly, it specifically provides, as noted above for the formation of integrative schemes in the area; and the formation of such grouping should now be relatively easier since all the 15 countries of West Africa are signatories to the Lome Convention (see map 2.1). It is also hoped that the unconditional acceptance that all black African countries not just those which happen to be ex-colonies of EEC members should be party to the new convention would, through intercourse, usher in better understanding between Anglophone and Francophone West Africa.

Secondly, there is a provision in Title III of the convention for industrial co-operation. This envisages the formation of an industrial development centre with a mandate to undertake surveys and studies and make contracts with potential investors in order to organise technological developments adapted to the requirements of the ACP countries and their industrial diversification. Because rationalised industrial diversification and balanced development on a regional basis is in itself one of the major aims of economic integration, the establishment of the industrial develoment centre for the ACPs would greatly benefit integration moves in these countries. However, any adverse effect of the EEC link on West African Economic integration in the foreseeable future is probably likely to be smaller than the obstacles which

exist among the countries of the region themselves.

On the political arena the Lome Convention offers the EEC considerable scope for political and diplomatic pressures on the ACPs. But this clearly falls outside the scope of this study; suffice it to say that former colonial nations of Europe who have influence on West African countries could apply their influence in such a way as to impinge on the freedom of the latter in deciding whether or not to join an integration scheme. Surely, everything depends on everything else. What is lacking in West Africa is the political will to set in motion a serious programme of economic integration, involving categorical commitments rather than declarations of intent.[23] In spite of OAU, the Lome Convention and the ECOWAS, Francophone West Africa still want to maintain its affinites complementaires with France, even at the expense of intra-West African integration initiatives.[24] A real sense of community and dedicated involvement in West African interests is called for; and once a decisive spirit is recognised the effects of external influence would be considerably reduced.

A third prerequisite for effective economic co-operation in West Africa turns on transport and communications. By definition economic integration between any group of countries implies easy access to each other's market. High intra-regional transport costs may give "natural protection" to a number of small-sized plants which outweighs the benefits of economies of scale. Similafly poor communications, involving time consuming procedures and insuffieient information sharing, can only retard economic growth.

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23. Although the Treaty of the Economic Community of West Africa is at the time of writing being signed in Lagos, there is still fear in some quarters that it might be difficult to get the required number of states to ratify it to enter into force.

24. See West Africa, 5 May, 1975, p. 505.

As indicated earlier the traditional transport structure of the sub-region is based on the need to move relatively bulky primary materials to a major port. Thus, with the expeption of land-locked countries, road and rail links normally lead from the interior to the coast while shipping routes connect ports to developed countries' markets. It has for long been recognised that "an integrated transport system" is the key to a rapid and comprehensive expansion of intra-West African trade and industry and that the main feature of the transport system is "the absence of satisfactory links between countries and territories."[25]

Improved transportation aids trade in two ways. First, it allows for expansion in trade of products currently produced in the sub-region. Secondly, it encourages the growth in trade of new goods from subregional industries the establishment of which will become possible as a result of integration.

Efforts geared towards the co-ordination of a new subregional transport network have been noticeable in the past. Several studies have been made followed up with little or no performances. At the first session of the West African Transport Conference in Monrovia in 1961 agreement was reached, albeit tentatively, on a network of subregional roads. With later supplementary proposals by ECA[26] this network provides for one road link between each neighbouring country and covers a total length of approximately 20,000 kilometres (12,500 miles). An effort was made in 1964 by ECA and ICAO* to promote the co-operative development of air transport. Countries agreed on the nedd for co-operation but no further action has been taken.

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25 ECA, Report on the First Session of the West African Transport Conference (E/CN. 14/147, 1961), p. 4.

26. ECA, "Inland transport in West African subregion" (E/CN. 14/TRANS/17, June 1964).

* International Civil Aviation Organization.

An estimate[27] was made of the modifications to the existing West African transport system which would be needed if the recommendations of the 1963 West African Industrial Co-ordination Mission were implemented.

It is of course true that new transport flows in the subregion cannot be determined with any degree of precision until actual decisions have been made on the siting of industries. However, the concentration of the market around the Bight of Benin means that this area is likely to be the first choice of large scale industries and it was suggested that studies would concentrate on improving the links between these countries and the rest of the sub-region. It was therefore recommended that (a) road networks be improved, mainly between Nigeria and Niger, Ivory Coast and Upper Volta and Mali, and Ghana and Upper Volta; (b) a Ghana-Togo-Dahomey-Nigeria rail link be developed; (c) railroad extensions from Maiduguri in North-Eastern Nigeria to Fort Lamy and from Ivory Coast into Mali be considered after a few years.

Incidentally this report[28] covers the transport problems of the special area of our investigation, Ghana and the Entente States. There is thus no shortage of proposals for improving the transport system in the area.

Indeed, the ECA report also considered the need for increased capacity in coastal shipping facilities and the harmonization of port adminstration methods and further studies of port capacities were also suggested.

On the basis of the ECA report and other three studies[29] some conclusions could be drawn on the perspectives of West African transport system.

27. ECA, Op.cit.(ST/ECA/109). p. 69.

28. ECA, Ibid.

29. These include two bilateral studies of transport development - one by a team from the Federal Republic of Germany: "Transit problems of African land-locked states" (E/CN.14/TRANS/28, Aug. 1965); one by a French team; "Aspects of transport development in West Africa" (E/CN,14/INR/118/ADD.1 October 1966); and an EEC Study of December 1966, "Possibilities d'industrialisation des Etata Africans et Malgache associes".

First, it is highly probable that most of the large-scale industry in any subregional industrial plan will be located along the coast and the expansion of coastal shipping on a co-operative basis should help integration in the area. Second, the expansion on inland transportation would better concentrate on road facilities except for a few special cases such as a coastal rail link between the Ivory Coast and Nigeria. Third, it appears that most of the investment in the road network should be in the improvement and proper maintenance of existing routes with particular attention being given to the standardisation of transport regulations and administration.

Although geophysical obstacles have often rendered transport connections prohibitively expensive the logic of economic integration in the subregion demands a balanced transport network.

The fourth problem likely to affect the expansion of intra-subregional trade revolves around the absence of a region-wide payments arrangement or union. As already shown, exchanges among members of the West African Customs Union (UDAO) are relatively much larger than trade between the group and the rest of the subregion (Table 2:8). One of the major reasons for this stems from the existence of a monetary union of the latter grouping known as the West African Union (UMAO)[30] with a Common Central bank and institute of issue of the CFA Franc. The union concluded an agreement with France on May 12, 1962 under which the latter guarantee the convertibility of the CFA franc into the French Franc; and in 1967 it was made freely convertible into other UMAO currencies for current payments.

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30. We will discuss this body in greater detail later.

As a result the UMAO countries need not bother about the problems of balance of payments in intra-union trade. Surplus countries can get away with non-inflationary policies and deficit countries can, if they wish, pursue inflationary policies for sometime.

In fact the advantages of clearing and payments union are many for intra-union trade among LDCs[31]. A simple payments union provides automatic credit to finance all or part of a member's deficit with the other members of the union, thereby multilateralizing credits among its members. Also in so far as members do not spend their foreign exchange in intra-zonal transactions it would permit some member countries to conserve their reserves for trade with third countries. In other terms members experiencing deficits with their partners in the union can finance their deficits without drawing down their reserves. Furthermore, if members are not obliged to ear-mark their reserves for settlements within the union, they would have less incentive to restrict their imports from extra-union sources, hence the expansion of intra-union trade need not necessarily mean a reduction in the volume of imports from the outside world.

There is however the reverse side of the argument. A surplus member while having a surplus with the union could not use its surplus to settle a deficit with the rest-of-the-world. On the other hand if it had a deficit with the union, it would be obliged to curtail its imports from outside or to draw on its reserves. Given the low level of intra-African trade, it is argued that

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31. For further reading see, R.F. Kahn, et.al., "The Contribution of Payments Arrangements to Trade Expansion" in P. Robson (ed) International Economic Integration, Penguin, 1971. Also see (i) P. Robson, Op.cit. pp. 287-291; (ii) UN Committee (1966), "Trade Expansion and Economic Co-operation among Developing Countries", and (iii) UN Committee (1965), "International Monetary Issues and the Developing Countries", United Nations.

the feedback effect of a payments union might be detrimental to an LDC which depends largely on the imports of capital goods from outside for its industrialization programme. While the basic fact here is clear, the desirability of some kind of payments arrangement for the promotion of intra-regional trade cannot be in dispute. Provided the parties to any such arrangement are determined to see it work and would be willing to make the necessary sacrifices. For example, members can set up "a common pool of foreign exchange" made up of contributions on a quota basis for the purpose enabling deficit countries to make intra-union payments in foreign currency over and above an agreed maximum figure. Figures up to or below the maximum would be settled in local currency. This source of credit which could be administered either by a co-operation of members' Central banks or a special union bank, certainly holds out some hope for the expansion of intra-zonal trade in West Africa.[32]

Such other factors, like compensation strategy, which directly affect the success of integration schemes will be treated separately later in the study.

In conclusion some non-economic centrifugal forces operating on the sociocultural sphere, which can undermine co-ordinated economic relationships, might be mentioned here. The African languages spoken in West Africa are as many as one hundred and fifty[33]. Religions are many, nationalism (or what Western

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32. This type of scheme would be without prejudice to the members' membership of the IMF and the credit facilities available to them as a result. See, P.J. Robson, op.cit. p. 291. But it is important to underline the point that the credit facilities available to the LDCs from this body vis-a-vis their needs are highly limited, not to mention the bureaucratic procedure and terms of granting these facilities. See. T. Hayter, "Aid as Imperialism" Penguin, 1971, Chapter 2.

33. See Ethnographical Survey of West Africa by the African Institute, London, edited by Daryll Forde, Vols. 1-XIII.

writers refer to as tribalism) is strong in the larger communities. Customs differ widely within each country and among countries. The level of literacy varies widely, ranging from under 5 to cover 25 (Table 2:1). Political systems show pretences to western-oriented liberal democracy but they are yet "unpolished' and are undergoing an evolutionary process. Needless to say, the political stability of some of the regimes in the subregion especially the military juntas is very uncertain. English or French is spoken by the literate West Africans. Inter-personal and inter-country contacts are greatly hampered by the Anglo-French cultural differences and outlook which have been inherited coupled with the marked absence of a lingua franca in West Africa. The strains and stresses arising out of these non-economic factors have tended to reinforce the economic obstacles to integration.

5. OPPORTUNITIES FOR GAIN FROM MARKET INTEGRATION IN WEST AFRICA.

In terms of pure theory, the basis for gains from economic integration is bound up with the opportunities for specialization and exchange of national markets. Although some of the conditions we have discussed above could help the course of integration, most of the potential gains from it rest with the exploitation of economies of scale. To gauge what potentialities there are in West Africa for gains from integration would involve elaborate quatitative estimates of real gains from market integration, taking into account present and future patterns of demand and supply for subregionally oriented products. We will apply a quantitative approach later but that would be limited to the case of Ghana and the Entente State. Meanwhile we can examine in general terms the opportunities for economic co-operation in West Africa.

As has been emphasized earlier (see table 2:9), the greater part of the volume of intra-regional trade is made up of agricultural foodstuffs, including processed and semi-processed materials. This presupposses, given the predominance of agriculture in the economies of the region and the steadily increasing demand for food arising out of the steady growth of population, that opportunities for the exapansion of intra-regional trade in agricultural products are quite substantial. At present none of the individual countries in the afea seems to be self-sufficient in food production, though, admittedly, much of this could be attributable to faulty agricultural policies. Until the economy of the subregion undergoes a fundamental structural transformation during which agriculture will lose its preponderance to industry, the least that could be said is that agricultural products will continue to play an important role in intra-regional trade subject to some qualifications. The more important of these are: (i) the construction of feeder roads and the existence of efficient distributive network throughout the subregion; (ii) increased specialization in production rather than cut-throat competition in the name of diversification policy or nationalism - the present trend towards chauvinism should yield place to subregionalism;[34] (iii) the setting up of adequate storage facilities else agricultural products have to be sold off cheaply or they become completely unsaleable: this is particularly important for inland states, especially

34. Ghana's Aliens Compliance Order, and the Business Promotion Act, 1970 both tended to be anti-regionalist. The government ostensibly in an effort to deal with the problem of unemployment evoked the provisions of the Compliance Order to eject non-Ghanians residents out of the country - mainly West African were affected. Also the Business Promotion Act reserved exclusively for Ghanains several categories of business whose annual turn-over were less than US $\frac{1}{2}$ million See, 'Africa Researoh Bulletin', June/July, 1970, p. 1736. Ironically, both measures proved counter-productive at least in the short-run. The indegenes could not quickly replace the ejected immigrants. Because - as in the case of labourers from Upper Volta and Niger who worked the cocoa farms - the Ghanians despised their job or - as in the case of traders and businessmen - the natives had neither the skill nor the capital to take over this sector. The immediate effect of both measures was a fall in the level of economic activity especially in the affected sectors.

Niger rice; and lastly (iv) a more judicious acceptance of US PL 480 Food programme aid would help the growth of subregional trade in certain agricultural products. In this context, PL 480 shipments of cotton to Ghana may provide an obstacle to future purchases by Ghana from her immediate neighbouring countries where cotton production is growing rapidly.

In the long-run however food imports are likely to contract, especially if the potentials for increased agricultural production are fully exploited in individual countries. On the other hand the production of manufactures is expected to expand as the process of import-substitution industrialization gathers momentum. Table 2:10 shows that even at the present stage trade in manufactures between Ghana and the Entente States is not altogether insignificant and it is easy to speculate that the long-range trend is expected to show increases. Of course, from the standpoint of integration benefits the long-run trend in the manufacturing sector in LDCs is generally regarded as a central question.

This reasoning no doubt is based on the controversial assumption that the technical and economic optima for many kinds of plants are necessarily large and that the extent of individual national markets is usually too small to sustain such plants. In somewhat path-breaking study, Professor Brown[35] made a

35. A. J. Brown, "Economic Separation versus a Common Market in Developing Countries", Yorkshire Bulletin of Economic and Social Research, May and November, 1961.

statistical analysis of plant size in the U.K. and its implications for industrialisation in what is now Commonwealth East Africa. The most important conclusion of this investigation is that a country offering less than 1% of the market available for British goods would be unable to efficiently sustain heavy industries, such as engineering and chemical plants. Applying Brown's argument to West Africa it is easily seen that only Nigeria and, to a lesser extent, Ghana can set up any heavy industry based on the home market, leaving aside the weakness of the statistics and the technical qualifications the application of the study might require.

However, Meier[36] adds a strong qualification to this point. He argues that, with respect to oil refineries and cement plants or the like, large size may be a necessary condition for the exploitation of economies of scale. But in many industries economies of scale may frequently be realised in plants of only moderate size, especially in the sector of light industry where fixed investment is only a small part of total costs. Besides, the market which was previously confined to the Unit is not apt to be extended very much to the wider areas of the union unless the pre-union tariff differences were rather wide.

In the West African case it is true that tariff differences may be considerable but it is unlikely that in the event of a union members would expose their infant industries to "unchecked" competition. Indeed, one of the real tests of any integration scheme in West Africa would be its ability to rationalise and mobilise the existing level of excess-capacity through vertical

36. G. M. Meier, "Effects of a Customs Union on Economic Development", Social and Economic Studies, 1960, Vol. 1, 9, p. 33.

specialization of production processes between plants in the same industry. A sizeable proportion of industry in the sub-recion operates at less than 50% of capacity. Existing breweries in the UDAO countries and the bicycle assembly plants in the area can be cited as examples. Also in Ghana most of the country's industries operate at less than half of full capacity. Given the existence of a wider market and a recourse to specialization it would be possible for these industries to reap the benefits of economies of scale.

As indicated before, regional transport network is another area where the economies of scale can be easily realised. That a transport system linking up different parts of a subregion can be successfully established only within a regional framework cannot be overstated. Other sectors which would offer opportunities for economies of scale to integrating countries include public utilities like rail and air transport, electricity generation, banking and research organisations. Investments in these fields are generally lumpy and indivisible hence the larger the market the more profitable and cheaper the operating costs of the enterprises. In fact, joint ownership of common services was the order of the day during the colonial adminstration. British West Africa had a joint airways, a joint shipping line, common research institutes and a common currency issued by the West African Currency Board but they did not outlive independence. Ironically enough, public utilities happen to be the darling of international lending agencies wanting to provide assistance for integration. They generally prefer to support regional infrastructure - river basin development, large power complexes, international highways, transport and communications, and so forth.

6. THE GENERAL PERSPECTIVES OF DEVELOPMENT

In concluding this chapter some general remarks regarding the perspectives of development in the subregion could be made. Between 1960 and 1966, the average annual rate of growth in West Africa was 2.9%, the lowest in developing Africa with the exception of Central Africa (Table 2:4). It is a far cry from the first UN Development Decade target figure of 5% (for all LDCs) for the 1960s. It is even less than half of the 1970s target of 6%. Even so it is not too bad a record when compared with the historical growth records of the presently industrialised countries in the early stages of their development: 2% in the UK between 1790 and 1820; 2.7% in Germany between 1850 and 1880; about 4% in the Japan between 1876 and 1900.[37] However, when these figures are adjusted for differences in average rates of population growth, the net real rate of growth for West Africa would be very close to zero, hence this retrospective comparison is not particularly fruitful.

Under the present average growth rate of about 3% and a weighted population rate of growth of 2.6%, the population of the subregion would be doubled in 25 to 30 years time. The current rate of economic growth, if it were to continue, would merely keep pace with the rate of population increase without a substantial improvement in the people's standard of living. This gloomy picture would certainly be unsatisfactory.

There are, however, hopeful indications that higher rates of development in the future are feasible.

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37. L. Pearson (Chairman), Partners in Development, Report of the Commission on International Development, Pall Mall Press, London, 1969, p. 27.

This is suggested, as noted earlier, by the general state of under-utilization of natural and capital resources in the subregion. Having recognised this, most governments have aimed at accelerated rates of growth. It is true, as past experience shows, that the planned targets have often not been achieved but it is equally true that lots of capital investments[38] have gone into infrastructural activities which have not had their full impact on the subregional economy. The possible corollary is that the economies would generate excess savings over infrastructural investment and export surpluses over imports - assuming reasonably increasing supply and demand for exports. Given the increase in capital formation, it would be possible to devote more resources to investment of a productive and self-liquidating nature thereby in achieving higher rates of growth, while the consequent increase in the demand for imports, especially of capital goods, would not cause balance of payments problems which might exercise a constraint to growth.

In relation to population, it is quite conceivable to suppose that, with the increase in level of literacy, urbanization and family planning facilities, the present high figure (Table 1) might be reduced, if not radically, at least slightly. The Indian experiment[39] in this field is a source of hope and encouragement. For the slightest reduction in the rate of population growth augurs well for a faster rate of economic growth.

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38. This was particularly true of Ghana, under the seven-year (1963-70) Development Plan. See, C.B.S., Economic Survey, Accra, 1965, p. 14.

39. The Indian Government reports with pride that the 1971 census puts the country's population at 547 million, less than official projection. It is reckoned that since 1967 family-planning programmes have prevented an estimated 1.3 million births per year (See, Time Magazine, April 26, 1971).

These optimistic predictions have of course been based upon a set of assumption which may not hold in the course of future developments. For instance, prediction on the increase of savings has been based on its behavior in relation to income, but the behaviour may be changed radically if the distribution of income undergoes a radical change. Export prospects have been based on the projections in Table 2:11, and biased in favour of the "high" figures. But again much depends on the income elasticities of demand in the developed countries, the market shares of, and the competitive conditions in, the subregion and above all the development of substitutes, with respect to some commodities of export interest to the area.

Furthermore, the capital-output relationships may be incluenced by the delayed effect of investment in infrastructure on the one hand and the drying up of obvious investment opportunities, especially of the import-substitution variety, on the other.

CHAPTER THREE

THE TRADITIONAL THEORY OF INTEGRATION

In many parts of the world to-day some form of economic integration is either in existence or actively in prospect. This widespread enthusiasm for the formation of customs unions, free trade areas, common markets or economic unions among groups of countries, derives from a complex of motives and sentiments. In Western Europe after the 2nd world war, the search for a permanent peace and world order gave birth to a spurt of integration initiatives some of which have been a success to date. In LDCs also political and psychological considerations have always been mixed up with what may be regarded as an alternative economic policy[1] designed, hopefully, to achieve satisfactory and lasting solutions to their trade problems. The urge for close economic ties is further reinforced by the growing realisation, as demostrated in the previous chapter, that the small size of some LDCs is a real obstacle to rapid economic development, if not a handicap. But, although, a priori, it is generally agreed that trade liberalisation within a grouping maximises economic efficiency from the group's point of view vis-a-vis non-trade situation (autarky), it is possible, even likely, that some countries or groups within each member country will be hurt by the dismantling of trade barriers - in spite of the fact that the pie is larger for the members of the group as a whole. In other words, the gains from economic integration are usually achieved at the cost of distributive effects within the group.

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1. The other areas of trade promotion policy with respect to LDCs which have received much intensive consideration are:- (i) international commodity agreements (ICA); (ii) free market access beyond that (iii) preferences. But as the records of the 1st and 2nd UN development decades as well as the three UNCTAD Conferences (at Geneva, 1964; New Delhi, 1968; and Santiago, 1972) show progress in these areas has not been very satisfactory. Neither the General Agreement

Thus, the cardinal issue, to which we shall now direct our attention, is to what extent does the conventional theory help to explain the effects of economic integration on actual or prospective members - the costs and benefits they derive from it, particularly in the case of trade groupings among LDCs.[7]

A word should now be said at this point about the plan of the chapter. The first part will consist of a static analysis of economic integration. The second part examines the theory of integration from a dynamic context and inquires into the relevance of the basic theory to the conditions of LDCs; while the concluding part looks at the role of harmonization of economic policies within the framework of economic integration.

1. THE STATICS OF ECONOMIC INTEGRATION

The economic analysis of integration centres fundamentally on two things. The first has to do with the effects of economic union on aspects of welfare. These, as discussed below, relate mainly to the static effects of integration.

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on Tariffs and Trade (GATT), where the DCs appear to take advantage of their majority voting strength, nor the UNCTAD, where, as an organ of the UN General Assembly cannot pass resolutions binding under international law, the LDCs dispose of ⅔ of the votes, has operated to adequately foster the trade and development interests of the LDCs (See Intereconomics (vi), June 1972, Hamburg).

The second area of attention concerns the effect of union on the pattern and volume of trade. This is in many respects a question of dynamic economics, under given assumptions.[2] The answers, which we ventilate in the second section of this chapter, depend on the change in the relative prices brought about by the realignment of tariff patterns between the union and outside countries.

1.1 The Main Focus

The static effects of economic integration between two or more countries refer to the welfare gains or losses from a marginal reallocation of production and consumption patterns, under conditions of static equilibria in which such things as factor endowments, technology, demand, and population are assumed to remain unchanged. These effects, conveniently summarised,[3] include: (a) the production effect or intercountry substitution of trade (this effect is also divided into trade creation and trade diversion); (b) consumption effect or intercommodity substitution due to changes in relative prices; and (c) the terms of trade effect which might result from trade diversion or the increase in the bargaining power of the partner countries.

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2. The dynamic concept relaxes the neo-classical assumptions of full employment, perfect competition, constant returns to scale, perfect internal mobility of factors of production, and the equality of privates and social costs (see Demas, The Economics of Development in Small Countries With Special Reference to the Caribbean, McGill Uni. Press, Montreal, 1965, pp.85-6). It must be noted however that the dischotomy between static and dynamic economics seems blurred and no attempt has been made here to draw a sharp line between the two.

3. See T.A. Jabber, A Review Article: "The Relevance of Traditional Integration Theory to Less Developed Countries," Journal of Common Market Studies, March 1971, Vol. ix, No. 3.

Taking its evaluative criteria from the static effects[4] the primary concern of the traditional theory of integration has been to examine the desirability of a customs union from the world's welfare standpoint. Viner's celebrated pioneer work[5] distinguishes between two effects: trade creation and trade diversion. Trade creation is said to occur if and when a pre-union high-cost domestic producer is displaced and replaced by a low-cost intra-union producer after the formation of customs union. Since the formation of a customs union has brought in its wake the relocation of production in the least-cost location within the union, trade creation has a salutary effect on the national income of the integrated economies and, ipso facto, of the world. Conversely, trade diversion occurs if prior to the union a high-cost (inefficient) producer having been sheltered by a post-union discriminatory tariff wall captures part of or the entire union market. This, in the traditional theorists' parlance, would represent not only a loss in world national income but a 'disaster' for specialization on a world wide scale, and it may also be a loss or a gain to the total national income of the union. Thus in its simplest form theVinerian analysis leads to one important conclusion. That is: A customs union raises the world's welfare if its trade creation effect outweighs its trade diversion effect. In other terms, trade creation, from the point of view of free trade, is a move in the right direction, whilst trade diversion is a move in the wrong direction; as the former occurs when the constituent economies are competitive in products, rather than complementary, prior to the formation of a customs union.

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4. Yu-Min Chou, "Economic Integration in Less Developed Countries: The case of Small Countries," Journal of Development Studies, July 1967, p.19.

5. Jacob Viner, The Customs Union Issue, Carnegie Endowment for International Peade, New York, 1950.

In many respects, the emphasis on the static effects in the traditional theory of economic integration is understandable. First, it is consistent with the static approach in international trade theory of which economic integration is conceived as "that branch of tariff theory which deals with the effects of geographically discriminatory changes in trade barriers."[6] Second, and more importantly, it is consistent with the relative importance of adjustments likely to occur once a group of developed countries decides to integrate. "The theoretical literature of economic integration dealt almost exclusively with customs unions of industrial economies,"[7] whose problem is not primarily one of economic development but of relatively marginal adjustments in production and consumption patterns.

Before the publication of Viner's path-breaking work[8], the generally accepted view was that a customs union, since it represents a move towards free trade in the Haberler - Marshall sense, increases world welfare. It was in order to demonstrate the flaws implicit in this method of reasoning that Viner introduced the concepts of trade creation and trade diversion. Even so, although Viner's contribution has remained one of the important pillars on which customs union theory rests, and while we may derive some guidance from it on the effects of integration on production both outside and inside the integration area, it does not make it possible, as we shall soon see, to judge the overal desirability of an integration scheme.

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6. R.G. LIPSEY, "The Theory of Customs Union: A General Survey", Economic Journal (September 1960), pp. 261-2.

7 Bela Balassa, Economic Development and Integration (Mexico: Centro De Estudies Monetaries Latinoamericanos, 1965), p. 16.

8. J. Viner, op.cit.

9.

1.2 NEO-VINERIAN REVISIONS

Following the analytical weaknesses embodied in the Vinerian model revisions and refinements of it have been made. Among others, Meade's contribution in this direction has been notable. He contends that the Vinerian trade creation/diversion effects should not be measured in terms of the size of trade diverted only. Instead Meade holds that a better method is to compare the product of trade diverted multiplied by the rise in its cost, and the product of trade created multiplied by the fall in its cost.[9]

Another area of controversy derives from Viner's own assumptions. Viner confined his analysis to production effects only, assuming demand curves of zero elasticity and supply curves of infinite elasticity. Drawing attention to this weakness, Gehrels brought up the consumption effects of a customs union as "the response of consumers to the drop in import prices caused by the tariff removal."[10] He, of course, conceived of positive consumption effects only which should be added to trade creation effect in evaluating the gains or losses of a customs union. The idea of positive consumption effect was criticised by Lipsey who suggested, and correctly too, that "in general, the consumption effect, like the production effect, can work either to raise or to lower welfare."[11]

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9. J. E. Meade, The Theory of Customs Union (Amsterdam: North-Holland Publishing Company, 1955).
10. Franz Gehrels, "Customs Union from a single-country view-point", Review of Economic Studies (1956-57), p. 61.
11. R.G. Lipsey, "Mr. Gehrels on Customs Union", Ibid, p.211. See also R.G.Lipsey, "The Theory of Customs Unions: Trade Diversion and Welfare", Economica (Feb. 1957), p.41. Lipsey re-emphasized this point that "when consumption effects are allowed for, the simple conclusions that trade creation is good and trade diversion is bad are no longer valid." Also see H.G.Johnson, Money, Trade and Economic Growth, H.U.P., 1967, pp.53-4.

Scitovsky considered such effects, which have received little attention in the traditional theory - as increased competition, economies of scale, change in the volume and location of investment, and terms of trade with regard to Western Europe.[12] However, all these considerations have been within the framework of the traditional theory. The sections which follow turn to the dynamic aspects with reference to LDCs.

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12. Tibor Scitovsky, Economic Theory and Western European Integration, Stanford University Press, 1958.

2. THE DYNAMICS OF ECONOMIC INTEGRATION WITH PARTICULAR REFERENCE TO LDCs

Since the 1960s increasing attention has been directed to problems of economic integration among LDCs. Most writers (see 2.1) who considered these problems feel that the traditional theory of economic integration has limited relevance, if any, to LDCs. They point out several arguments which can be classified[13] as follows: (i) Economic integration in case of LDCs should be treated as an approach to economic development rather than as a tariff issue. Accordingly, it combines various aspects which could improve the international trade position as well as raise the level of economic development of LDCs; (ii) The emphasis should be placed on dynamic rather than static effects in evaluating the desirability of economic integration among LDCs. The dynamic effects refer to the various possible ways which integration affects the rate of growth of GNP of participating countries. They include: (a) the economies of scale brought about by the enlargement of the size of the market for firms producing below optimum capacity prior to integration; (b) the external economies which shift specific or general curves downward; (c) the polarization effect which refers to the cumulative improvement of the relative, or absolute, economic position of a member country or some regions in the integrated area due to concentrated trade creation or attractiveness of labour and capital; (d) the effect on the volume and location of investment; and (e) the effect on economic efficiency and smoothness of trade transactions due to change in the degree of competition and change in uncertainty and unilaterality of trade policies of individual countries.

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13. T. A. Jaber, op.cit. This part (2) draws heavily on this source.

The present economic structure, so the argument goes, is not acceptable and each LDC is trying to introduce positive changes. These changes are nor marginal but structural. Their net effect will not be felt over a short period of time. Therefore, any evaluation of economic integration schemes should concentrate on the above potential or dynamic effects.

2.1 REFORMULATION AND EXTENTION OF THE CONVENTIONAL THEORY

In view of the structural characteristics of LDCs and to render the conventional theory of integration useful in judging the desirability of integration in LDCs a reformulation and extention of the theory have been made. In reshaping the standard theory the contributions of many influential economists have been outstanding.

Seers and Balassa [14] were in the vanguard among these who seriously questioned the applicability of the traditional theory of customs union to the problems of LDCs. But, in the protracted but heated discussion among the writers who have specificially examined the problem of integration in LDCs, two schools of thought appear to have emerged.[15] On the one hand there are some economists, like Allen, Meier, and Mikesell[16] who have repudiated the standard customs union theory as being relevant to developing countries.

14. D. Seers, "The Limitations of the Special Case", Bulletin of the Oxford Institute of Economics and Statistics, May 1963. p. 83. B. Balassa, op.cit., p.35. On a broader plane the applicability of "Conventional Economics" to LDCs have been called into question. See H. Myint, Economic Theory and the Underdeveloped Countries, Journal of Political Economy, Vol. 75, 1965. This provides a searching analysis.

15. D. Dosser and Associates feel that there are infact two schools of thought but this dichotomy is imprecise as both camps - although differring in other ways - admit the basic limitations of the theory (See Dosser, et. al. ATheory of Economic Integration for Developing Countries, Allen and Unwin ltd. 1971, p.15).

16 R. L. Allen, "Integration in Less Developed Areas", Kyklos (14) pp.315-35, fsc.3 1961. G.M. Meier, "Effects of a Customs Unions on Economic Development,"

On the other are those who have taken a different view. The latter group does not repudiate customs union theory as completely irrelevant to LDCs but it rejects that brand of the theory which is current as applicable only to developed countries, recognising that there may be forms of customs union, and criteria of judging their success other than the conventional ones, which may be of value in the analysis and policy of LDCs. This more sophisticated way of thinking on customs unions has been developed by Mikesell in a second paper,[17] and by Bhambri, Kitamura, Urquidi, Linder and by Cooper and Massell.

From the writings of these authors on a new customs union theory for LDCs, three strands of thought can be distinguished. These are: (i) Customs union theory should contribute to a more equitable distribution of income; (ii) Trade diversion might be inevitable in a developing country; and (iii) The standard theory must incorporate dynamic aspects.[18]

Social and Economic Studies, March 1960. R.F. Mikesell, "The Movement Toward Regional Trading Groups in Latin America", in Latin American Issues: Essays and Comments, (ed), A.O. Hirschman, The Twentieth Century Fund, New York, 1961. It would appear that Mikesell has done some rethinking on this subject since he wrote the aforementioned paper hence his later writing reflects a more balanced argument.

17. R.F. Mikesell, "The Theory of Common Markets as Applied to Regional Arrangements Among Developing Countries", in International Trade Theory in a Developing World, (ed) R.F. Harrod and D.C. Hague, Macmillan, London, 1963. R.S.Bhambri, "Customs Unions and Under-developed Countries," Economia Internazionale, xv, May 1962. H. Kitamura, Economic Theory and Regional Economic Integration of Asia, (ed) M.S. Wionzcek, Praeger, London, 1966. V.L.Urguidi, Free Trade and Economic Integration in Latin America, University of California Press, Berkeley and Los Angeles, 1962, ECLA, The Latin American Common Market, UN Sales No. 59 II (G.4), New York, 1959. S.B. Linder, Trade and Trade Policy for Development, Praeger Series on International Economics and Development, New York, 1967. C.A. Cooper and B.F. Massell, "Toward a General Theory of Customs Union for Developing Countries, Journal of Political Economy, 73, pp. 461-67, Oct. 1965.

18. F. Kahnert and Associates, Economic Integration Among Developing Countries OECD, Paris, 1969, p. 16.

It is worth demonstrating at this point why these conclusions are necessary. Firstly, Viner considers trade diversion a negative production effect which necessarily reduces welfare. But it can be noticed that trade diversion is basically taking place on the individual country's level through import-substituting industrialization. The choice therefore is between trade diversion in favour of the domestic producer at any cost and trade diversion in favour of the most efficient producer in the region. In general, however, a pattern of industrialization based on greater specialization within the region will be more rewarding than one based on production by each country for its own domestic market, particularly for small countries.[19]

Secondly, in most LDCs there exists a situation of general low productivity and in some sectors marginal productivity might approach zero. Also, as we shall show in chapter 6, unemployment is not uncommon. If trade diversion moves labour from low-productivity to more productive activities, it will bring about a gain in welfare.[20] In LDCs with considerable levels of unemployment such as Central West Africa, this gain in welfare becomes more likely. The evaluation of integration among LDCs should not therefore be confined to production and consumption effects, income and employment effects are equally important.

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19. R.F. Mikesell, op.cit., pp.209-10. Another but equally impressive version of this argument relates to the length of time required to assure optimum capacity of output. The rate of growth of domestic demand for small LDCs individually does not allow for a large volume of demand which would enable domestic firms to achieve real cost reductions over a reasonable period of time. This is probably more obvious in the case of durable manufactured goods. Hence the thinking that economic integration among LDCs would make this process of trade diversion more efficient in terms of reducing real costs over a shorter period (See R.S. Bhambri, op.cit. p. 245 and Jaber. op.cit. p. 258).

29. W. G. Demas, Op.cit. p. 87.

Thirdly, when imports of LDCs are disaggregated, trade diversion appears to occur mainly in nondurable, and to a less extent in durable, manufactured consumer goods. In a static situation, no trade diversion or creation is likely to occur in their imports of capital goods which account for about 40% of total imports.[21] In a dynamic situation, it is argued that a higher rate of growth conceived by an economic integration scheme would require a larger investment. Since a large portion of this investment is imported as capital goods, the level of imports of integrated LDCs might then increase. In any case, the long-run impact of a regional trading arrangement is not to decrease trade with the rest of the world but rather to change its pattern and possibly to enlarge it.[22]

Put another way, some writers argue that economic integration among LDCs should aim at trade diversion from DCs[23] The effectiveness of such economic integration then is to be indicated by the success of the trade diversion process. Bhambri expresses this point in stronger terms thus:

> It is ... reasonable to suggest that trade diversion will be doubly beneficial. Firstly, by enlarging the size of market for manufactures in both countries, increased trade will help to reduce costs in industries where scale economies are important. Secondly, import substitution over a wider area will enable the region as a whole to spend a higher proportion of its foreign exchange on imports of capital goods and raw materials and help to increase the rate of investment and economic growth.[24]

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21. B. Balassa, Economic Development and Integration, p.25.
22. R.F. Mikesell, op.cit., p. 209.
23. S. B. Linder, op.cit., p. 127.
24. R. S. Bhambri, op. cit., p. 245.

Finally, trade creation, like trade diversion, should be looked at in dynamic terms. The dynamic trade-creating effect results from the increase in income of the integrated area and through the foreign trade multiplier.[25] It is argued that this effect would be large enough to out-weigh dynamic trade diversion of economic integration among LDCs. As Kitamura aptly stated: "The income effects, so far as trade with the outside world is concerned, will clearly tend to increase considerably the scope for beneficial exchange of goods with third countries, and this secondary trade expansion may very well more than offset the possible initial reduction of this particular type of trade".[26]

To sum up, the foregoing arguments show the limited relevance of the trade creation/diversion criteria, as defined by the traditional theory, to problems of LDCs' economic integration schemes. These arguments suggest, though without proof, that the dynamic effects of integration are favourable to the welfare of LDCs and possibly to the world's welfare. Thus, when economic integration is viewed from the standpoint of LDCs alone, the case for their integration becomes substantially persuasive.[27]

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25. See M.E. Kreinin, "On the Dynamic Effects of a Customs", Journal of Political Economy, April 1964, pp. 193-5

26. Kitamura, op.cit., p. 53.

27. The Pan-Africanist version of this thesis makes an interesting reading (See R.H. Green, et.al. Unity or Poverty? The Economics of Pan-Africanism, Penguin African Library, 1968, ppp 264-81).

2.2 THE LIMITATIONS OF THE FACTORS AFFECTING THE RELEVANCE OF THE TRADITIONAL THEORY TO LDCs

Based on a number of factors[28], which the conventional theory has discussed in the context of DCs, some generalizations are reached to judge the desirability of economic integration. Some writers take these generalizations to apply to DCs and LDCs alike. Allen, for instance, suggested that although these criteria were designed specifically for integration among industrialized countried, they are appropriate for application to less developed areas as well".[29] The following discussion will attempt to demonstrate just how limited is the relevance of these generalizations to economic integration among LDCs when looked at from a dynamic viewpoint. Six of these generalizations come readily to mind:

(i) Viner has raised the issue of competitiveness and complementarity in product markets and suggested that the more the partners are competitive (Complementary) in the sense of producing similar (dissimilar) products, the more (less) favourable economic integration would be, Makower and Morton added that the larger the cost differences among partners the larger the gain from economic integration.[30]

By definition, specialization in primary products by LDCs amounts to being more competitive in the Vinerian sense;[31] yet this general state of competitiveness, on balance, limits the welfare gain of economic integration among LDCs. This is self-contradictory but the irony is clear. The plain fact is that most

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28. For a summary of these factors, see B. Balassa, The Theory of Economic Integration, pp.29-48; Meade, op.cit., pp. 107-15; Allen, op.cit., p.319; and Johnson, op.cit., p.57.

29 Allen, Ibid.

30. H. Makower, & G. Morton, "A Contribution Towards a Theory of Customs Union," Economic Journal (March, 1953) p.33.

31. Mikesell, Op.cit., p.212.

LDC exports of primary products are oriented to DC markets; consequently economic integration among LDCs, in these circumstances, would not bring about a sizeable expansion of their intra-zonal trade (see chapter 2). However, the category of primary products is too broad, and once it is disaggregated, potential expansion would appear quite likely.

But, even so, the criterion of competitiveness and complementarity is not particularly relevant at all to LDCs unless it is given a different sense.[32] It presumes a developed economic structure which, when integrated, would readjust through a "creative destruction" process that ends up by the survival of the most efficient producer. These economic structures are not established in LDCs, let alone the creative destruction process. Evidently, the welfare gain or loss from these effects is relevant to manufactured goods and local foodstuffs rather than to traditional exports of primary products. It must be noted, of course, that "as industrialization proceeds, they (LDCs) are going to be more competitive; but what (they)... should strive for is a pattern of investment which will introduce a substantial degree of complementarity for the future".[33]

(ii) The standard theory of economic integration holds that the larger the size of the customs union, the larger the gains in welfare. If GNP is taken as a measure, one implication is that the gain from integration among LDCs is small or even negligible. Although this is understandable, a small absolute gain might in a relative sense, be quite important for LDCs.

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32. Balassa, Economic Development and Integration, p. 25.

33. Mikesell, Op.cit., p.212. Presently, African economies are not "potentially very complementary"; their ratio of foreign trade to total is very high and their pre-union volume of intra-regional trade is low and in some instances zero. The sluggish performance of existing integration schemes in West Africa discussed in chapter 5 can be largely attributed to this.

Moreover, the gain does not depend only on the given size of the union but also on the rate at which it increases.[34]

(iii) Inadequate transport facilities tend to limit the gain from economic integration among LDCs. This has been demonstrated in chapter two and elsewhere. As Hazlewood notes, "the removal of tariffs between Kenya and Ethiopia, for instance, would not add significantly to the market for industry established in either country .... The reason is that there is virtually no means of surface transport between the two countries."[35] In his assessment of the possibility of economic integration of the West Indies, Demas has also warned that "without the development of cheap and regular interisland air and sea transport, customs union can have no meaning".[36]

However, these may be extreme cases. In most cases, transport facilities do exist; but they were developed in the past with an eye to encourage the export of primary products to the industrial countries of Western Europe and North America and are today generally inadequate for intra-regional trade. As we shall see in chapter 7, lack of rail links between Niger and the other Entente member states has affected the volume and prices of goods traded between the landlocked former and the latter. Nonetheless, transport facilities should be seen only as a single parameter among many; though their improvement should be

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34. Balassa, The Throry of Economic Integration, p. 38.

35. Arthur Hazlewood in Op.cit., Hazelwood (ed), p. 10.

36. Demas, "The Economics of West Indies Customs Union", Op.cit., p.13. West Africa has its own transport problems as well. Transport difficulties dealt a serious blow to effective competition and free circulation of goods within the UDEAO. Transport problems and, particularly, high transport costs made it difficult for the exports of the inland countries to compete with those of coastal states. The former were often compelled to reduce producer prices below those prevailing in the coastal countries and thus lowered rural incomes (see chapter 5).

included, as indeed we do in this study, in evaluating the desirability of economic integration in LDCs.

(iv) It is generally believed a priori that the higher the initial tariff rates and the lower the external common tariff, the larger the welfare gain of economic integration. More often than not tariff rates in most LDCs are quite high either for revenue or protection purposes; hence the welfare gain would tend to increase with integration. In reality, however, there are no good grounds to expect economic integration to end up with a low external common tariff because (a) the protective policy will be extended to the region, where partners can reach agreement faster if protection is increased; (b) it is argued that "customs protection (even in the case of EEC) is the only effective means of securing the conditions essential to permit the co-ordination of national policies prior to their amalgamation"[37].

From the writing of some economists there is a suggestion that the external common tariff might have to be higher than the national tariffs of the partners.[38] The obvious problem in this case is that it will conflict with the GATT rules according to which the external common tariff must not be higher than the initial national tariffs. Nevertheless, this might be justified during the early period of economic integration among LDCs, if it could be shown that successful economic integration would enable partner countries ultimately to lower the external common tariff due to real cost reduction and improved competitiveness.

(v) It is easily deducible from the conventional theory of integration that "a customs union is more likely to raise welfare the higher is the proportion of

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37. A. Marchal, "The European Economic Community and the Developing Countries," Annals of Public and Co-Operative Economy, 1965, p. 52.

38. Dell, Trade Blocs and Common Markets (New York, Knopf, 1963) pp. 242-50.

trade with the country's union partner and the lower the proportion of trade with the outside world".[39] As chapter 2 illustrates, intra-regional trade of LDCs is small: "it rarely exceeds 12% of their total trade (except in South-east Asia)", while it is more than 30% among EEC countries.[40] The obvious implication here is that welfare gains from static effects will be small in the economic integration of LDCs. Surely, this can be confronted with empirical evidence.

Several empirical studies aimed at quantifying the static gains of economic integration have been reported.[41] The major results of some of these studies, as summarised in Table 3.1, indicate that the static gains of economic integration are extremely small. These gains are calculated from the standpoint of an individual country or area. The static effects on the rest of the world equally show a very insignificant gain(or loss). This comes out very clearly from the first case in the Table. Even allowing for some margin of error and for the inadequacy of estimates, a basic implication of these studies is that they provide no economic support for the case of economic integration. Furthermore, there are some indications that the static gains from economic integration among LDCs tend to be even more insignificant than for the DCs. The case for LAFTA in Table 3.1 bears eloquent testimony to this point.

However, we have to take into cognizance a set of factors which impedes the expansion of intra-zonal trade of LDCs.

39. Lipsey, "The Theory of Customs Union: A General Survey", op.cit., p. 273

40. Bhambri, Op.cit., p. 236

41. For an impressive survey of such empirical studies see Bela Balassa, "Trade Creation and Trade Diversion in the European Common Market", Economic Journal, (77) March 1967, pp. 1-5.

TABLE 3.1

STATIC GAINS OF ECONOMIC INTEGRATION: EMPIRICAL EVIDENCE

STUDY	CASE	GAIN % OF GNP
1. Scitovsky, T. Economic Theory and Western European Integration Stanford: Stanford Uni. Press, 1958, pp. 64-70	Effects on the pattern of trade of a customs union among EEC countries Scandinavian Countries, and Britain based upon their 1952 trade matrix.	0,005 of GNP matched by equal loss to the rest of the world due to trade diversion.
2. Johnson, H.G. "The Gains from Free Trade with Europe: An Estimate," Manchester School (Sept. 1958), pp. 247-55.	Effect on the value of British trade from joining EFTA, estimates for 1970.	About £225 million, which is about 0.01 of British GNP.
3. Wemelsfelder, J. 'The Short-Term Effect of the Lowering of Import Duties in Germany', Economic Journal (March, 1960) pp. 94-104.	Effects of Lowering German Tariffs during 1956-57 by more than 50%.	DM 375 million or 0.0018.
4. Singh, A. In Leibenstein, H. "Allocative Efficiency', American Economic Review, (June 1966 1966), pp. 392-415.	Gains from trade among LAFTA Countries, using Scitovsky method.	0.000075.

The most important of these factors are: (a) the low level of economic development; (b) the inadequacy of transport facilities; (c) overvalued currencies which cancel out significant bases of comparative advantage; (d) foreign exchange control and other import restrictions; (e) lack of knowledge and inadequate marketing skills; (f) the historical ties of colonial economic integration; (g) negative attitudes of nationalism;

and (h) the absence of standard specification.[42]

Past experiences show that the removal of some or all of these obstacles might result in an increase in intra-regional trade. Some notable example are: the relatively high percentage of trade among the East African Common Market Members (16%); the relative increase in trade among Central American Common Market members where "nearly two-thirds of the total volume of (their) trade. . . consists of manufactured products". Trade between Egypt and Syria after their unity of 1958 showed a relatively larger increase than among any other two Arab countries.[43]

(vi) Lastly, the traditional theory infers that "a customs union is more likely to raise welfare the lower is the volume of foreign trade"[44] as a percentage of GNP of member countries. The implied corollary here is that for LDCs economic integration does not promise a significant gain in welfare. It would, however, appear that the relative importance of foreign trade depends upon the size more than the level of economic development. Furthermore, the relatively large volume of foreign trade represents a potential for dynamic production and income effects.[45]

From the foregoing it is easy to see that the traditional theory of economic integration does not illuminate the structural and dynamic problems of the LDCs:

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42. See V.L. Urquidi, op.cit. pp. 13-16; Balassa, Economic Development and Integration, pp. 32-4; and Bhambri, op.cit. pp. 237-8.

43. ECLA, Economic Survey of Latin America (New York, 1965), p. 47; and T.M.A. Jaber, "Jordan's Position in Arab Economic Integration" (unpublished Master's thesis, University of Southern California, 1968), p. 32. All thing being equal, it is expected that the planned unification of Egypt and Libya will greatly increase trade between them.

44. Lipsey, "The Theory of Customs Union: A General Survey", op.cit.p. 273.

45. A.J. Brown: "Common Market Criteria and Experience", The Three Banks Review, (March, 1963), p. 7.

it does not furnish an adequate diagnosis for evaluating the rationale of integration among them; and its generalizations are of little explanatory value. This has led some writers, like Linder, to assert that "the possibility of a universal theory of customs unions and economic development is automatically ruled out."[46] But, taking a harder look at this problem, others have put forward a specific but more reasoned approach to deal with economic integration of LDCs which "accepts industrialization as a legitimate policy goal and considers how membership in a Customs Union may enable a less developed country to achieve more economically the ends served by protection."[47] In brief, the next section draws attention to the dependence of integration on protection.

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46. Linder, "Customs Unions and Economics Development", Op.cit., p. 32.

47. C.A. Cooper and B. F. Massell, Op.cit., p. 462.

2.3 THE DEPENDENCE OF INTEGRATION ON PROTECTION

It is argued that "if there is no case for protection, there is in terms of pure theory, no case for integration."[48] This argument derives from the acceptance of industrialization as one of the legitimate policy objectives which integration is expected to foster and the post-war policy switch to import-substituting industrialization. But the case for protection has a longer history.

Pride of historical place goes to the "infact industry" argument, first advanced by Alexander Hamilton in 1791 and later by Friedrich List, the latter being convinced that it was necessary for German development in the 19th century that she should protect her manufactures against the more experienced British. The United States evoked the same argument as a reason for protecting its industries against European manufacturers who not only were older-established but also paid lower wages.[49]

Over the decades, however, the economic arguments for protection centred more or less on static considerations. The more important ones arise from imperfections in the price and wage structure.[50] The first and most common case in support of protection in LDCs is that unskilled industrial wages are too high, relative to those of agriculture. It is therefore contended that, since the cost of manufactured output exaggerates the sacrifices of output required in

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48. P. Robson, Economic Integration in Africa, op.cit.,pp. 37-40.

49. Ian Little and Associates, Industry and Trade in Some Developing Countries A Comparative study, O.U.P., 1970, p.118. In its simplified form the infact industry thesis is that a new industry is difficult to establish in the face of competition from an established industry abroad: the workers and managers lack experience which takes time to acquire. Thus, like a baby the new industry will be "petted" and "nursed up" to adolescence stage through protection.

50. Ibid.

other sectors, principally agriculture, industry needs some countervailing encouragement.

Another popular argument is that industrial protection generates "external economies," which may sometimes create a justifiable case for protection. For instance, a businessman who starts to use techniques which are new, say in his own country, may be unable to prevent the know-how he acquires from "spilling over", and thus benefiting others. By retraining his managers and workers to acquire new knowledge he spends some money; and may thereafter lose them or have to pay them more to keep them. Protection is seen as the obvious answer here.

However, the more recent espousal of protectionism in LDCs goes beyond the preceding static reasoning. The desirability of liberal system of international trade as enshrined in the classical doctrine of comparative advantage has, as demonstrated earlier, been often taken for granted in traditional theoretical literature. According to the classical principle of comparative advantage; freedom of trade permits each country to specialise in the production of those goods which it can produce most efficiently, and to avoid wasting resources on producing goods that it can produce only inefficiently, instead of importing such goods from countries that can produce them more efficiently and paying for them by exports of the goods that it can produce efficiently.[51]

Today, the arguments of a liberal economic order capable of optimally allocating given world resources have come under a pungent attack bordering on derision by some economists who took the view that "static" efficiency conditions are not relevant to the problem facing LDCs.[52]

51. Harry G. Johnson: The World Economy at the Cross-roads (Oxford: Clarendon Press, 1965), p. 8.

52. A. Lucid and persuasive exposition of this view appears in the writings of Gunnar Myrdal, Raul Prebisch, Ragner Nurkse, Hans Singer and Dudley Seers, among others. See G. Myrdal, Economic Theory and Underdeveloped Regions, Duckworth, London, 1957: An International Economy, Harper &

As argued by Myrdal, the free play of international "market forces will tend cumulatively to accentuate international inequalities," "and" a quite normal result of unhampered trade between two countries, of which one is industrial and the other underdeveloped, is the initiation of cumulative process towards the impoverishment and stagnation of the latter.[53] The proponents of this idea emphasize, among others: the need for radical structural transformation of the economies of LDCs, the existence of unemployment and underemployed resources, the wide "trade gap" between the LDCs and DCs, the narrow dependence of the former on foreign trade and the possible favourable effects which protection might have on investment and capital inflows from abroad. Thus, appealing to "dynamic" considerations of economic growth and development, liberal international economic policies are blamed for the condition of economic stagnation in LDCs; and protectionism is seen as an undisputed remedy for that condition.[54]

But counterarguments have flowed. The classical conceptual apparatus has been defended and indeed refined by other economists of different persuation. Harry Johnson, for example, contends that the argument for a liberal economic order is even stronger in the dynamic context of growth and development than it

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Brothers, 1956; UNECLA, The Economic Development of Latin America and Its Problems, (New York, 1950); R. Nukse, Patterns of Trade and Development, Wicksell Lectures, A.&.W. 1959, pp. 60-61; H.W. Singer, "The Distribution of Gains between Investing and Borrowing Countries," AER, 1950, pp. 437-485; D. Seers, "A Model of Comparative Rates of Growth in the World Economy, Economic Journal, March, 1962. The general unanimity of view, of course, does not preclude many differences of emphasis in the various arguments.

53. Myrdal, An International Economy, op.cit. pp. 55, 95.

54. Johnson, The World Economy at the Crossroads, op.cit. p. 10.

is in the static concept of efficiency:

> . . . the process of international competition even if it is allowed to operate only imperfectly contains two automatic mechanisms that tend to transmit the process of economic growth from the advanced countries to the underdeveloped or developing countries: the growth of demand for natural resource products, and the growth-induced upward trend in the price of labour in the advanced countries.[55]

Two growth transmission channels are referred to here. The first aspect of the transmission process derives from the growing pressure of demand on natural resources which would stimulate exploration for and exploitation of new sources of supply, and the development of other parts of the world possessing such resources with the aid of capital, technology, and trained labour supplied by the centre.[56] The second aspects of the transmission process relates to the rising demand for labour in the developed centre and to the general tendency of technical progress to raise real wages. The high wage levels in the centre relative to the periphery makes it increasingly profitable to establish production facilities in the latter areas, first to service markets in the periphery formerly supplied from the centre and later - once the most advantage outweighed the transport costs back to the

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55. Ibid., p. 76

56. Balassa illustrated the operation of the growth transmission mechanism in his study of Britain and its trading primary producers in the 19th century. Because British agriculture was unprotected whilst demand for raw materials increased, the high rate of growth recorded by its suppliers in the temperate zone had been attributed to the free play of international market forces (see Balassa, Economic Development and Integration, Op.cit., pp. 44-45).

centre - to export to the centre itself.[57]

However, notwithstanding the impeccable logic of the orthodox model of international development - albeit based on heroic assumption - the protectionist policy of import - substituting industrialization rapidly gained adherents during the Post-War era and by the 1950s had captured the imagination of most intellectuals and planners in the LDCs. The traditional analysis with its alleged automatic growth-diffusion aspects was rejected on the grounds that changes in the structure of thw world economy had invalidated the motion of the international transmission mechanism. Rather the acceptance of the dire need for a deliberate policy interference in the allocative functions of international competition had became a corporate part of the ideology of economic development.[58]

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57. H.G. Johnson, Economic Policies Toward Less Developed Countries (Washington D.C.B.I., 1967), p. 50.

58. The Policy of protectionism has also enjoyed the blessing of the United Nations which has advocated it through its regional economic commissions in LDCs (ECLA and ECA) and UNCTAD (Robson, Economic Integration in Africa, op.cit., p. 36). There appear to be three strands in the argument supporting the protectionist viewpoint, namely: (a) the unfavourable effects of international factor movements, (b) the international operation of the "demonstration effect" and (c) the secular deterioration in the terms of trade between the LDCs and DCs. It is held that all three had imparted retardatory effects on development. Meier, (International Trade and Development, Haypar and Row, London, 1963 chapt. 7) provides a stimulating analysis on the subject.

With respect to Latin America Hirschman writes:

> The phase of export-propelled growth in Latin America lasted roughly from the middle of the nineteenth century until the Great Depression; and it took another twenty years, from 1929 to the Prebisch manifesto of 1949, before the end-of-export-propelled-growth became official Latin American doctrine.[59]

In Africa, the empirical examination of one of the most successful integration schemes has also highlighted the role of protection. The Raisman Commission which was set up to look into the operation of the East African Common Market contended that with respect to LDCs "the growth of industry under protection, displacing imports . . ., does not simply divert resources from one productive use to another equally (or perhaps) less productive, as may happen when protection is applied in a highly developed country. It draws into employment labour which would otherwise be largely unproductive, brings in capital from abroad, and generally stimulates activity."[60]

Thus, it follows from the preceding arguments that the acceptance of integration as a strategy of industrialization strongly reinforces the case for protection in LDCs.

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59. A.O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America", Quarterly Journal of Economics, Feb., 1968, p. 3.

60. Robson, Economic Integration in Africa, Op.cit., p. 35.

3. ROLE OF MEASURES OF POLICY HARMONIZATION

We now come to the final question of the role of measures and instruments of policy harmonization in correcting imbalances in the distribution of costs and benefits of economic integration. One of the weaknesses of the traditional theory of integration is that it does not generate satisfactory conceptualization or testable formulas which could be applied to ensure the equitable distribution of the gains or losses of integration. Infact, it is a commonplace that there is nothing in the operation of a common market to ensure the automatic distribution of the gains it generates on equitable basis. On the contrary, it is the inherent tendency of the market mechanism to work in a disequalizing manner.[61] If we assume - as indeed this study does - that each member of a prospective or existing union is primarily more concerned not with the total size of the pie but with its share of it, it means there is a clear preference for "regulated" union rather than a "laisser faire" union.[62]

However, measures taken with a view to correcting imbalances in the distribution of costs and benefits must not obstruct the development of the region as a whole, so as not to become self-defeating. Besides, it is important to remember that some measures necessary to deal with short-run problems may not be sufficient to correct underlying imbalances, while other measures appropriate for the latter purpose would not be useful for resolving immediate problems. Therefore exclusive pre-occupation with long-term measures should not allow short-term problems to assume such crisis proportions that would lead to

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61. This point will be developed further at a later stage.
62. A. Hazlewood (ed.), African Integration and Disintegration, Op.cit., p. 14.

the dissolution of the grouping without having had the opportunity of tackling the long-term problems.

As we shall demonstrate in chapter 5, reluctance to accept the discipline of surbordinating national interests to those of the group as a whole has been the major drawback of the existing integration arrangements in West Africa. Although Article 1 of the 1959 Convention of the West African Customs Unions stipulated that members should not levy customs or fiscal duties on trade with other union members,[63] it was difficult for member states to adhere strictly to the provisions of this Article. Against the background of post-independence increase in government expenditure needs and the importance of duties and taxes on imports as the largest single source of government revenue in these countries, each member country modified its fiscal duties unilaterally in accordance with its own fiscal needs.

Similarly, the partnership of unequal partners has often widened rather than narrowed the "economic gap" between members of a grouping. Recently, many existing integrative schemes among LDCs have experienced this tendency. During the life of the West African Customs Union its activities were dominated by Ivory Coast and Senegal, a factor which contributed to its eventual collapse. Today, while Ivory Coast's share of intra-Entente exports is 41%, its imports account for only 10% of total.[64] In certain respects, Kenya within the East African Economic Community occupies an analogous position.

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63. IMF, Surveys of African Economies, Vol. 3, IMF, Washington DC., 1970, p. 15.

64. See Chapter 5, Section 5.4(Table 5.4)

Further afield, similar experiences abound. In South America, both the Economic Commission for Latin America (ECLA) and the Intra-American Committee for the Alliance for Progress (CIAP) have concluded that the major obstacle impeding the progress of Latin American Free Trade Association (LAFTA) is the economic disparities among the members.[65] After some fourteen years of co-operative regional development per capita income in the region still ranges from about $179 in Bolivia to $818 in Argentina and $879 in Venezuela. With their greater capabilities to take advantage of tariff concessions and complementarity agreements, Argentina, Brazil, and Mexico have been able to increase their intra-regional trade at a faster rate than most of the less-developed members.[66] Even in Central America, where differences in levels of development are somewhat less pronounced than they are in South America, new industry has tended to gravitate to the relatively more advanced centres in EL Salvador, Costa Rica and Guatemala, bypassing the two less-developed countries, Honduras and Nicaragua.

Thus any feasible integration arrangement likely to withstand the test of time will demand the assurance of an equitable distribution of benefits. Indeed, from the point of view of individual countries the formation of new unions or the durability of existing ones would depend largely on the prospect of gain - either directly, through faster economic growth, or indirectly, through structural transformation or both.

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65. J.D. Cochrane, et.al., "LAFTA and the CACM: A Comparative Analysis of Integration in Latin America", The Journal of Developing Areas, Vol. 8, No. 1, 1973, p. 18.

66. Ibid.

In a laisser faire economic union industry tends to concentrate in the more advanced member to enjoy the benefits of its larger markets and of the external economies and linkages produced by the existence of other industries and its more developed infrastructure. The lagging members suffer in more ways than one. They buy the products of the partners at a higher price than from the outside world, and they do not have the benefits which the more advanced member gets in the form of higher income and employment in industry, the development and growth of external economies and the contribution which industry may make to the structural transformation of the economy[67]. For the lagging members of a union this is a serious matter.

Some of these writers (discussed earlier) - like Johnson, Cooper and Massell - who have concerned themselves with the reformulation of the traditional theory of customs union with particular reference to LDCs have placed great emphasis on distributional consideration by building into their analytical framework some instruments for distributing the gains from integration. In their conceptualization the social objective function of industrialization among LDCs was generally recognised, a factor which explains the difficulties involved in negotiating and getting an integration scheme off the ground, especially among countries at different levels of development. It is, of course, a priori difficult to generalise on the policy instruments of distribution best suited to any integration schemes as this is clearly a function of the type of integration arrangement adopted in each case.

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67. P. Robson, "The Reshaping of East African Co-operation," in The East African Economic Review, December 1967, P. 2.

However, there are at least four areas of policy manoeuvre: (i) Fiscal policy, (ii) Monetary policy, (iii) Payment and Credit agreements, and (iv) Industrial and Investment policy. These policy instruments are discussed in detail in chapter 9 in relation to the region of our interest. For now, no more than some general comments intended to underline the role which the harmonization of these policies and measures could be expected to play in the smooth running of economic groupings are presented here.

There is a case for the harmonization of fiscal systems (including fiscal incentives) within a union on conventional efficiency grounds. A priori the integration or harmonization of the various domestic taxes and duties of an economic union makes it possible to realise the full benefits of integration and also tends to ensure a more optimum allocation of resources, quite apart from being a useful anti-smuggling device. Lack of any measure of harmony of fiscal systems is likely to hinder intra-group trade or divert such trade to illegal channels, and ultimately lead to undesirable distortions and influences on the distribution of opportunities for productive investment.

However, fiscal harmonization need not necessarily imply the equality of tax rates. Indeed, as Professor Dosser argues,[68] the standard tax union theory is largely inapplicable to most LDCs. He contends that the establishment of a common system of taxation for most groupings of LDCs would prove a very complicated and, at any rate, largely meaningless exercise, given, among other things,

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68. D. Dosser, "Customs Unions, Tax Unions, Development Unions", Institute of Social and Economic Research and Department of Economics, University of York, Economics Series, No. 145, pp. 86-104.

their diverse structures, principles and rates of taxation, some or all of which might have to be brought into a common form.[69] Compared with the simple reduction of tariff rates of customs unions, the changes involved in a tax harmonization programme may involve equalization or planned differences in all these aspects. Besides, the effects of such changes need to be more widely evaluated than on the customary allocative efficiency of customs union theory, including effects on growth, balance of payments and the like. Thus, rather than embark on full tax integration or harmonization with its attendant problems Dosser suggests planned tax concessions either in form of rate or structural provisions as a supplement to tariff policy for chosen sectoral development which would avoid,such big and complicated questions as equalization, trade and welfare effects.[70] In other terms, some instruments can be used in a planned way to achieve important aspects of the goals of tax integration without (necessarily) a recourse to complete tax harmonization.

Similarly, members of a grouping require some degree of co-operation in their monetary and payments fields in their own interest. The lubricating function of a common currency may be of crucial importance in the advanced stages of economic integration because a single currency allows complete freedom of payment by anyone place to any other place in the union. But before the stage of currency union is reached compensation can be provided to less developed members within the framework of payments arrangements by granting of more liberal credit to the less developed partners incurring deficits in trade with the rest of the group.

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69. Ibid. pp. 90-91

70. Ibid., p. 94.

However, measures in the field of payments, while useful as a temporary cushion to deficit countries in dealing with their intra-union commitments, provide only narrow scope for correcting the structural imbalances of countries not deriving their fair share of the benefits of integration. This suggests that the surplus countries should progressively bear more and more of the burden of balance of payments adjustment measures.

Industrial and investment policy issues differ in some respects from monetary and fiscal measures. For while the former focuses mainly on preventive or ex ante measures designed to achieve desirable future pattern and allocation of investment, the latter concentrates principally on corrective or ex post measures instituted primarily to correct existing uneven development and to strengthen the preventive measures.[71] The importance of a harmonized industrial and investment policy in an integration scheme cannot be overemphasized in view of the quest for rapid industrialization (from the individual country viewpoint) among LDCs. And any acceptable investment policy must guarantee each union member a fair share of potential industrial investments. Hence such a policy would necessarily involve the package approach which would be economically the most attractive and politically the most feasible. The package approach usually involves, as presented in chapter 9, intergovernmental agreement about the establishment of designated new plants together with the necessary implementation measures. That is: it requires the participants to come to an agreement on a

71. Of course, the distinction between preventive and corrective measures is hardly clear-cut. Preventive measures should allow for great flexibility in their application, so that they can be reviewed in the course of integration, which implies, to some extent, converting preventive to corrective measures.

specific acceptably balanced package consisting of a list of industrial projects. The main merits of this package approach as compared to the single-industry approach is that it offers the possibility for each of the co-operating countries to get a fair share in the distribution of integration - induced projects and their benefits; and, ipso facto, provides a vehicle for a more equitable distribution of the fruits of integration.

In concluding this chapter, we recapitulate the main points discussed. We have examined the traditional theory of integration and found its conceptualizations inadequate and largely inapplicable to LDCs. There are two main reasons for this: first, because they were based on heroic static assumptions associated with advanced economies; second, because economic integration among LDCs should be treated as a strategy of economic development rather than a mere tariff issue. Consequently, attempts have been made to reformulate and refine the conventional theory with special emphasis on its dynamic aspects to render it more amenable to the problems of LDCs. Great improvements have been made in this direction but more than fifteen years of reformulating and redefining have not yielded satisfactory coherent conceptualizations with respect to the evaluation of the dynamic effects of integration among LDCs. For one thing, the empirical evidence on the magnitudes of the dynamic effects is far from being conclusive and mostly related to problems other than economic integration. Indeed, as Leibenstein emphasises, there are some indications of a substantial increase in labour productivity in individual firms where dynamic efficiency measures were introduced such as plant layout reorganization, simple technical alterations,

waste control, workers training and supervision.[72] Among the factors which affect the rate of growth (i.e. dynamic efficiency), Harberger has singled out technical advance to be the most important. He states: "If there is any key factor at all for achieving rapid development, I believe it is technical advance".[73] Thus it is the inescapable conclusion of this review that the analysis of the dynamic aspects of economic integration among LDCs requires further empirical studies and a more systematic theoretical treatment.

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72. K. Leibenstein, "Allocative Efficiency vs. 'X-Efficiency'", American Economic Review (June, 1966), pp. 392-415.

73. A.C. Harberger, "Using the Resources at Hand more Effectively", American Economic Review, Papers and Proceedings, (May 1959), pp. 134-46.

7

CHAPTER FOUR

RECENT DEVELOPMENTS IN INTEGRATION

ANALYSIS

The propelling force behind economic integration in LDCs, as demonstrated in the preceding chapter, centres on whether the prospective members or participants in an integration scheme can, on balance, grow faster individually - in terms of one or more of such economic indicators as income, employment, industrialization and structural transformation - than would otherwise be the case if they were to remain outside the union.[1] They would therefore be well-advised, if they were to make a rational policy decision, to evaluate the impact of integration, in quantitative terms upon the above parameters. From the standpoint of such an evaluation, short-run consideration may well not be crucial, and indeed may yield place to long-range goals, because gains from integration, if any, are more likely to be fully exploited in the long-run. Hence, with the introduction of "checks and balance," time dimension tends to act as a basis for assessing ultimate success or failure.

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1. This is not to deny the political aspects of integration. Indeed, a country may want to join or remain within an existing grouping for reasons other than economic. Following the events of the 2nd World War, as noted earlier, the search for a permanent peace and world order which would give Europe new political strength and stability and confidence likely to prevent the recrudescence of future nationalistic militarism played a part in the founding of the EEC. But while not playing down the role of political considerations in economic groupings, the dominant motivations in entering such schemes in LDCs are generally likely to be more economic than political.

Conceivably, recent developments in integration analysis with particular reference to LDCs can be viewed from two different, though not mutually exclusive, angles: the theoretical and quantitative aspects. By theoretical aspect we refer to developments of a theoretical nature whilst the quantitative dimension pertains to other recent developments involving attempts at measuring the effects of economic integration, particularly among LDCs. Of course, this distinction however defined must be arbitrary. Since economics as a discipline relies heavily on quantitative techniques as one of its principal analytical tools developments in any branch of the subject - such as international economic integration - are bound to embrace both the theoretical and quantitative aspects as one and the same process rather than two parallel developments. Indeed, most of those economists discussed in the previous chapter, who have contributed to the theoretical reformulation and refinement of the conventional theory of integration, have also tried at the same time to develop some quantitative models to render their theoretical contributions as far as possible measurable and testable. However, we retain the distinction between the theoretical and quantitative aspects of developments in integration analysis here for purposes of emphasis, focus and analytical convenience.

This chapter is in three parts. The first part briefly discusses the theoretical advances in integration analysis; the second part reviews some of the more recent attempts to measure the effects of integration on macro-economic variables in LDCs whilst the third part presents a reasoned synthesis of the hitherto disparate approaches to the quantitative evaluation of the effects of integration.

1. THEORETICAL DEVELOPMENTS

Chapter three has fully elaborated recent revisions and reformulations of the traditional theory of integration. In order to minimise repetition we present below a brief summary of these developments with a view to highlighting their theoretical dimension.

The main concern of the traditional theory of economic integration is to evaluate the desirability of a customs union from the world's welfare viewpoint and using static effects as criteria.[2] Prior to the publication of Viner's work[3], the generally accepted view was that a customs union, since it represents a move towards free trade in the Haberler — Marshall sense, increases world welfare. Viner introduced the concepts of trade creation and trade diversion into the orthodox theory, arguing that a customs union raises the world's welfare only if its trade creation effect outweighs its trade diversion effect. Meade contends that the Vinerian trade creation/diversion effects should not be measured in terms of the size of trade diverted only. He suggests that a better method is to compare the product of trade diverted multiplied by the rise in its cost, and the product of trade created multiplied by the fall in its cost.[4] Also Gehrels took issue with Viner's assumptions. Viner confined his analysis to production effects only, assuming demand curves of zero elasticity and supply curves of infinite elasticity. But Gehrels drew attention to the consumption effects of a customs union and emphasized the tendency of consumers to respond to the drop in import prices

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2. See section 1 of chapter 3.
3. J. Viner, Op. cit.
4. J. E. Meade, Op.cit.

caused by the removal of tariffs.[5] He of course conceived of positive consumption effects only and their consequent impact on welfare. This idea was criticised by Lipsey who argued that "in general, the consumption effect, like the production effect, can work either to raise or lower welfare".[6] Such other effects, which have received little attention in the standard theory as increased competition, economies of scale, change in the volume and location of investment and terms of trade with regard to Western Europe were considered by Scitovsky.[7] Evidently, these considerations have been within the framework of the traditional theory.

Since the 1960s a major development has taken place in integration analysis. It is the increasing attention that has been directed to problems of economic integration among LDCs. This stems from the fact that most writers (including Seers, Balassa, Allen, Mikesell, Bhambri, Kitamura, Linder, Cooper and Massell[8]) who considered these problems hold that the traditional theory of customs union has limited relevance, if any, to LDCs. The kernel of their thesis is that (i) economic integration in the case of LDCs should be treated as a strategy of economic development rather than a mere tariff issue, given that LDCs require structural transformation rather than marginal adjustments in their production and consumption patterns which are the main concern of DCs; and (ii) consequently, emphasis should be placed on dynamic rather than static effects in evaluating the desirability of economic integration among LDCs

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5. Chapter 3 (i)
6. Ibid (footnote 11)
7. Ibid (Footnote 12).
8. Ibid (Footnotes 14-17).

because of the structural characteristics of their economies. Conceptually, the dynamic effects refer to the various possible ways (such as the exploitation of internal and external economies of scale, effects on volume and location of investment and on economic efficiency) in which integration affects the rate of growth of GNP of participating countries.

In view of the structural characteristics of LDCs and to render the conventional theory useful in judging the desirability of integration in LDCs some influential economists have reformulated and extended the theory. Among these scholars, whose names have been mentioned above, two schools of thought seem to have emerged. On the one hand there are some economists, like Allen and Meier who have repudiated the traditional theory of integration as being relevant to LDCs. But on the other are those, including Mikesell, Bhambri, Kitamura, Linder, Cooper and Massell, who do not repudiate customs union theory as completely irrelevant to LDCs but they reject that brand of the theory which is current as applicable only to DCs, recognising that there may be forms of customs union, and criteria of judging their success other than the conventional ones, which may be of value in the analysis and policy of LDCs. From the writings of these authors a new customs union theory for LDCs appears to have emerged. It accepts, and indeed emphasises, among others, the inevitability of trade diversion in a developing country at the early stages due to its relatively less efficient production conditions, the incorporation of dynamic aspects to provide impetus to economic development and the need to evolve a system for a more equitable distribution of income/benefits within a grouping.

The foregoing brief sketch rehearses recent theoretical attempts to revise and reformulate the conventional theory of integration, especially to suit the present-day needs of LDCs. The impression one gets from this is that some progress has been made but some problems still remain. Undoubtedly, one of the striking things about integration analysis is that it has lagged behind comparable development in the theory of trade, for instance, with respect to its effects on factor incomes and also with regard to such matters as factor movements. Improvements are therefore still needed not only in the theoretical field but also in the quantitative analysis of the effects of integration on the economies of LDCs. But improvements in the latter aspect should, as we discuss below, concentrate on developing more appropriate models of measurement.

2. A SURVEY OF QUANTITATIVE APPROACHES

There are a number of studies that have constructed various models for the purpose of estimating the effects of integration on less-developed economies. In assessing the applicability of these models within the context of a specified less-developed area one begins to discover their individual weaknesses. Even so with modifications and/or the incorporation of some aspects of two or more methods into one "new" model the resulting estimates might indicate conclusions of reasonable reliability for evaluation purposes. The succeeding paragraphs survey the more important models.

In the East African Common Market (EACM)[9], Ghai[10], drawing upon the conventional trade-creation/trade-diversion dichotomy, explores the relationship between a member country's gain from the common market to the size of the common external tariff protecting the country's major industries. The basis of Ghai's model is his use of tariff as a yardstick for measuring gains/losses from integration, given the level and value of intra-union trade. He argues that, since the great majority of products traded interterritorially enjoy a high tariff protection against imports from outside East Africa, "it seems appropriate to take the value of inter-territorial exports by the three East African countries as an index of their gain, and inter-territorial imports as a measure of their loss from the operation of the Common Market."[11]

His calculations, which were based on 1962 intra-EACM trade data, led him to conclude that the tariff system has been considerably more protective of Kenyan and Ugandan than Tanzanian industries.

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9. Presently consisting of Kenya, Uganda and Tanzania.
10. D. Ghai, "Territorial Distribution of the Benefits and Costs of the East African Common Market" in The East African Economic Review, Vol. 2, No. 1, June 1964, PP. 29-40.
11. Ibid, P. 35.

The inference thus is that Kenya has been the greatest net beneficiary; that Uganda has on balance gained rather than lost; and that Tanzania has suffered a substantial net lose from the operation of the EACM.

Ghai's analysis has been criticised, especially on the following grounds. Firstly, Ghai's analysis is based on intra-union trade in "visible" commodities alone; but a thorough-going evaluation of the benefits derived ffom the EACM must also take account of "invisible" services "traded" inter-territorially. Nor is there any reason to suppose that the value of intra-area trade in invisibles; would be very insignificant. On the contrary, Kenya's entrepot position and Nairobi's commercial and industrial pre-eminence suggest that trade in this area would form a sizeable portion of Kenya's benefits.[12] Besides, Ghai considered only the direct benefits of intra-zonal exports, ignoring the indirect benefits likely to flow from the domestic multiplier effects of the income generated by exports to other union members. Although such benefits will depend upon the level and character of inter-territorial exports from each country, they can be substantial in certain cases.

Secondly, it has been pointed out that His application of the nominal rather than the effective tariff rates tended to exaggerate the discriminatory character of the tariff and this must have affected his results.[13]

Thirdly, the allocative efficiency of integration may have been over-estimated in the Ghai's model. As noted in the previous chapter, factors other than integration such as changes and improvements in input mix can and do

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12. The most important services of this kind include insurance, transportation, tourism, advertising, stock-holding (Nairobi and Mombassa wholesale merchants import for distribution in Uganda and Tanzania) and other commercial services such as auditing and accounting (See Ibid. P.37).

13. See D. Segal, East African Common Market Inequities of the 1960's: An Arbitration Scheme, an unpublished Ph. D. thesis, Yale University, 1969, P.7.

contribute to the increase or fall in exports or imports; hence it would be unsafe to regard the total value of exports/imports in this case as representing benefits/costs of integration.

Finally, Ghai did not give adequate attention to the revenue-loss effects of integration-induced import substitution in his cost calculations, a matter which is important from the point of view of public capital formation - especially in countries lacking alternative sources of government revenue.

Nevertheless, Ghai's study provides some useful guidance as to how the gains and losses of integration have been distributed. For one thing, the study confirms what appears to have become a conventional wisdom in East Africa: that Kenya has been the greatest net beneficiary of the common market arrangements, Uganda on balance has gained rather than lost, and Tanzania has suffered a substantial net loss. This conclusion differs sharply from that arrived by the Raisman Commission in an earlier study which says ". . . that the benefits derived by the Territories have been unequal than that any one of them has suffered actual loss."[14] Even so, the limited scope of Ghai's study cannot be used as a conclusive evidence to support the withdrawal of Tanzania from the EACM.

Approaching the same subject from somewhat different angle, Newlyn[15] attempts to estimate the gains or losses that would be involved for Tanzania and Uganda in the event of their leaving the East African Common Market. He starts by identifying a set of projects, which he calls "shiftable industries." According to this concept an industry located in Kenya and exporting to Tanzania or Uganda is "shiftable" to one of these countries, if the average value of output per plant is less than the value of exports to one or the other of the countries. Newlyn

14. See "Report of the Economic and Fiscal Commision," Cmnd 1279, p.62

15. W.T. Newlyn, "Gains and Losses in the East African Common Market" in Yorkshire Bulleting of Economic and Social Research, November 1965. In a way, Newlyn assesses the costs or benefits of integration in LDCs from a different perspective. He is not only interested in the gains and losses from integration but in the costs and benefits consequent upon alternative

records 15 shiftable industries and argues that a large amount of Kenya's 1961 industrial production was transferable to the other two countries in the absence of integration. Using Kenyan value added figures by manufacture a calculation was made to show how much additional national product would be generated in the other countries if that amount of output were instead produced there.

The assumptions implicit in Newlyn's work are its major weakness. The model assumes that a shiftable industry does not enjoy a comparative advantage in Kenya. This would have been easy to defend if the statistical base of the computations were very strong;[16] that is, if the output of an industry in the census is homogeneous. But given the non-homogeneity of the output of industries covered in the census used, the identification of shiftable industries seems somewhat haphazard. There is also the assumption of constant returns to scale, which again is far from defensible since it underrates the external economies of industrial concentration in Kenya and their effects on returns to scale. Besides, there is the question of the non-optimality of the tariff level employed in the computations from the point of view of individual countries.

These criticisms notwithstanding, the Newlyn's approach retains much of its value. Although Newlyn himself recognises the pitfalls of his assumptions he

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LEVELS OF UTILIZATION OF RESOURCES WITHIN A COMMON MARKET. Newlyn's article is reprinted in P. Robson (ed.), International Economic Integration. Penguin, 1972, PP. 348-361.

16. It is relevant to note here that, although Hazlewood supports the notion of shiftability, he takes issue with Newlyn's criterion of average plant size. He argues that if one takes into account the variability of plant size and heterogeneity of census categories within each of Newlyn's industries, then 11 out of the 15 industries fail to pass the shiftability test. In his submission, Hazlewood shows that there are insufficient data from which to make inferences regarding the shiftability of the remaining four industries - textiles, paper, bicycle tires and paints. See, Arthur Hazlewood, "The shiftability of industry and the measurement of gains and losses in the East African Common Market." Bulletin of the Oxford University Institute of Economics and Statistics, 28(May 1966) PP. 63-72.

nevertheless believes that they do not significantly detract from his conclusions. For example, the charge of non-homogeneity of products within an industry is acknowledged especially in such industries as textiles but Newlyn says . . . "it does not seem . . . that it is likely to cause any significant errors in the relevant cases."[17] With regard to the external economies generated by the concentration of industries in Kenya Newlyn argues that in the short-run these could be offset by tax remissions whilst in the long-run the advantages of such external economies in Kenya would diminish with industrial development in Tanzania and Uganda.

In sum, what Newlyn is saying is that there are limits and conditions for a feasible solution to the problem of unequitable distribution of common market gains or losses. These requirements he gives as follows:

$$L_K > R + G_T + Gu$$

Where L_K is Kenya's loss from leaving the common market; G_T and Gu are Tanzania's and Uganda's gain; and R is the cost of redistribution required to maintain the common market.

Other non-economic considerations (mainly of political nature) apart, few would deny the value of, and the logic behind, Newlyn's formulation for assessing whether members of a common market where gains are unevenly distributed should continue their membership or not. But whether his submission "that this proposition is capable of generalization to cover any common market in which there is a clear aggregate gain combined with instability due to dissatisfaction with the distribution of the gain"[18] is really so, in view of the weak statistical base of his analysis, is another matter.

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17. Ibid, P.353.
18. Ibid, P. 360.

Directed to Latin American integration initiatives is another study worthy of note. In this study Carnoy[19] employs the conventional space location theory in estimating the welfare effects of a Latin American Customs Union on the major countries of the area. The approach attempts to determine under certain restrictive assumptions which country or countries within the region have an absolute advantage in producing the products studied. Once determined, the country is considered the "Optimum" location of production in the region, and the supply price from the optimum location is taken as the "customs union" price of the goods. The cost to each member of the union of buying from the minimum cost (optimum) production points within the region is compared with the cost of importing from developed countries or producing the goods domestically. The methodology goes on to estimate the gain or loss to each country associated with buying the products in a customs union.

In a nutshell, the objective of the model is to find the combination of plants which would supply, at a minimum cost to LAFTA, the fixed demands for a given product at specified locations in the area. Therefore cost minimization depends on the quantity demanded at each consumption point, the cost of production at each production point, and the cost of transportation between each production point and each consumption point.[20]

The model has something to commend it. It estimates the gains or losses to union members from choosing imports from third countries, domestic production, or imports from the optimum location within the union as their source of supply

19. Martin Carnoy, "A Welfare Analysis of Latin American Economic Union: Six Industry Studies", R. Hilton (ed.), The Movement Toward Latin American Unity, Praeger Publishers, N.Y. 1969, PP. 237-260. See also M. Carnoy, Industrialization in A Latin American Common Market, The Brookings Institution, Washington, 1972.

20. R. Hilton, Op.cit.P.238.

and therefore can give at a glance what a union member is losing or gaining by importing from the intra-union optimum poroduction points in terms of a single indicator.

However, it is rather questionable whether cost differentials between the delivered prices of goods in the optimum production points and the alternative supply prices in themselves constitute a satisfactory basis for intra-union distribution of industries. A more acceptable, evaluative criterion for industrial location in an integrated region ought to build into itself a distribution strategy. Such a model could be a trade-off between economic feasibility and political acceptability within the union to ensure the deconcentration of investments in the more attractive parts of the region.

Indeed, strict adherence to the principle of optimum location within a union is tantamount to operating a "laisser faire" integration scheme where industry, as noted in chapter 3 (2.3), would tend to concentrate in the relatively more advanced countries because of their greater capabilities - in terms of larger markets, external economies and linkages and infrastructural development - to take advantage of tariff concessions and complementarity agreements.[21] The lagging members are the net losers both as importers and employers of labour. They buy the products of their partners at a higher price than from the outside world; and they do not have the direct benefits which the more developed members get in the form of employment in industry, higher income, the development and growth of external economies as well as the indirect contribution which industry may make to the structural transformation of their economies. As indicated earlier

21. Here we refer to complementary or supportive institutions such as Bank, a credit and payments scheme, common research institutes and the like which often accompany the formation of a common market.

in this chapter, the rationale of integration from the standpoint of individual members is the prospect of a faster rate of growth than would otherwise be possible outside the union. This hope is likely to be realised where the benefits of integration are equitably distributed rather than where the distribution strategy is based on a single "laissez faire" economic indicator as in the Carnoy model. Surely, unequitable distribution of the gains from integration is a sure source of dissatisfaction and a curb on its further activities and development. Aside from the propriety of the model as an industrial distribution strategy within a union, there is the problem of cost estimation. The method of cost estimation one might want to adopt will of course depend on data available and the country or region for which the estimate is made.[22] Whereas the model is relevant to West Africa with which this study is concerned, we examine elsewhere what aspects of the model we shall incorporate into our approach as well as our methods of cost and demand estimations.

Furthermore, the model deals with only a few isolated industries rather than with the economy as a whole.[23] This exposes it to all the limitations inherent in partial equilibrium analysis. Obtaining the optimum requires a general equilibrium analysis which would consider all industries and segments of the economy so that both direct and indirect impacts of economic integration could be measured. The implication of Carnoy's partial equilibrium approach is that the results do not give locations that can be properly called "optimum", but rather "minimum cost".[24]

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22. Indeed, since the availability and reliability of data vary from country to country and from product to product, the Latin American research Institutes which participated in the Carnoy study did not adhere to a common methodology for estimating future demand for the chosen products. As for cost estimates they were based on the cost profiles of the selected industries in countries where they already existed, allowance being made for economies of scale of higher levels of outputs.(Carnoy, Op.cit., P. 32).

23. See Ibid, P. 36.

24. M. Carnoy, "A Welfare Analysis of Latin American Economic Union: Six Industry Studies", Op.cit., P. 25 (Footnote 6).

On the whole, the Carnoy model has one most outstanding merit. It enables planners to find the cheapest way of supplying the projected demand from within a union, balancing the economies of scale, made possible by the expansion of production at any point against the accompanying increase in transport costs. But, whether the distribution strategy implied in the approach will satisfy the long-range objectives of all the member countries remains a moot point.

At a more macro-economic level a later UN study[25] departs from the trade flows approach. Drawing upon earlier work by Professor Hollis Chenery, the model employs multiple regression analysis utilising basic data for a large number of countries. Relying chiefly on cross-section regressions, it tries to show the share of industry in GDP as a function of population and per capita income - two parameters assumed to indicate size and strength of the market.

Again, this model has been criticised on several grounds. First the model is simplistic and restrictive in its framework of assumptions. Deriving its force from Engel's law, the approach is based on the premise that an increase in per capita income in a country is normally accompained by a rise in the share of industrial output."[26] Hence it makes use of only a limited number of explanatory variables. Certainly, one would be very cautious in attributing all changes in the industrial sector to integration alone.[27]

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25. United Nations, A Study of Industrial Growth, (UN Publication, Sales No. 63:11. B2)

26. Ibid.

27. McClelland has in a recent study thrown a good deal of light on this point. His methodology attempts to quantify the importance and share of the main forces contributing to growth in the CACM. He first considers the preintegration period and then the post-integration years. His analysis led him to conclude that "of the roughly 7% annual growth in regional GNP in Central America from mid-1962 through 1965, around 4% was due to minimum-normal growth, 2% to the increase in export receipts, and 1% to the expansionary effect of the Central American Common Market and related forces"

Other autonomous changes in factor efficiency reflecting technological progress, industrial reorganisation, or the like might contribute to the expansion of the industrial sector.

Secondly, the data on which the analysis is based covered only a minority of LDCs and therefore do not provide a sufficiently strong statistical foundation for any adequate generalization.

Thirdly, the model assumes that opportunities for intra-zonal trade in LDCs are better in industrial than in agricultural goods. In the short-run this would be difficult to defend, especially in predominantly agrarian economies where transport improvements can foster regional trade flows in agricultural produces. Nevertheless, food imports, in the long-run, are more likely to contract especially if the potentials for increased agricultural food production are fully exploited in individual countries; whereas intra-regional trade on manufactures is expected to expand as the process of import-substitution industrialization gathers momentum.

And lastly, it also assumes that the technical and economic pptima for many kinds of plants are necessarily large and that the extent of individual national markets is usually too small to sustain such plants. But as Meier[28] has noted while this may be true of oil refineries, iron and steel and cement plants, in many industries economies of scale may be frequently realised in

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(P.528). See, D.H.McClelland", "The Common Market's Contribution to Central American Economic Growth: A first Approximation" in R.Hilton, op.cit. PP.505-536. Minimum normal growth is interpreted to mean autonomous growth exclusive of external factors. Although the length of time, fours years upon which this study is based seems to be too short a period to form a basis for strong conclusions, yet the study clearly underscores the point that the bulk of the annual growth in GNP cannot be legitimately attributed, prima facie, to integration and allied repercussions alone.

28. G.M. Meier, "Effects of a Custom Union on Economic Development" Social and Economic Studies, 1960, Vol. 9, P. 33.

plants of only moderate size. This weakness, of course, derives mainly from the theory of economic integration itself rather than the model.

For all its weaknesses, the UM technique has one obvious advantage. It can be applied separately and collectively before and after integration to the union members. Also the model can serve as a useful complement to a more detailed integration study.

Finally, this brief survey would be certainly incomplete without any reference to the Andics-Dosser technique,[29] which was applied to the Caribbean integration experience. The model, purporting to give decision rules for investment policy, attempts to evaluate the allocation of integration industries in LDCs not from the narrow angle of intra-zonal trade flows of traditional theory

29. Also see D. Dosser, "Customs Unions, Tax Unions, Development Unions", Op.cit. In this later publication Professor Dosser reformulates the original Andics-Dosser thesis. He suggestes that their original criteria function for judging a customs or tax union could be taken as a measure of welfare change in the development sense. This function in its revised form is given as:

$$W = f\left(E_{(t)}, F_{(t)}, K_{(t)}, T_{(t)} \right),$$

where F and K represent, as before, foreign exchange saving and availability of capital resources respectively. E (formerly I = industrialisation benefits) now stands for employment creation whilst T (previously Y = national income loss effect of trade diversion) represents volume of trade, where all of these variables are functions of the tariff or tax which may be altered by union. W = welfare, both in the original and revised versions but in the former the emphasis is on the welfare benefits of integration industries while in the latter the focus is on the development welfare effects of such industries. In LDCs this distinction in emphasis with respect to W is very unclear. Obviously, both effects, if at all they are different, mean more or less the same thing in terms of their impact on economic development. Similarly, one is not too sure whether the revised criteria function represents a better measure than the original function, simply by replacing I and Y with E and T. If anything, the definition of E is much narrower, though perhaps easier to assess but less inclusive than I in its original definition. With respect to Y and T, both measure in essence the effect of union on volume of trade with particular reference to trade diversion. As Professor Dosser himself admits, views can differ widely on what constitutes development welfare effect of union and the appropriateness of his criteria function in determining it (Ibid., p.95). Much depends on the definitions of the four right-hand variables above, hence we have, as we shall show in chapter 7, redefined some of the original variables to suit our purpose.

but from the broad perspective of economic development. In this sense it parts company with the other models reviewed above. The principle of cost-benefit calculus is introduced. Before a potential industry is established within a union it must pass a certain test in conformity with the operative decision rule.

According to this rule of acceptability, "Protect all home activities where the benefit - cost ratio exceeds 1".[30] In other terms a candidate industry should be evaluated for each union partner according to the following equation:

$$\Delta W = \Delta I - \Delta Y + \Delta F - \Delta K$$

Where W = welfare, I = industrialisation benefits, Y = national income loss, F = foreign exchanges saving, and K = use of capital resources. If a given industry satisfies the criteria in one country only that country will have it; but if in more than one, "it is assigned to the country with the largest I,"[31] though subject to "distribution" weights to safeguard against total concentration (polarization) in one country. Perhaps, it may well be that the relative importance of F and K as a brake on development varies from one country to another. In that case, the cost-benefit calculation with respect to the two variables should be done in the context of individual countries.

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30. Ibid, P.19. It is of course true that the costs of a project ought to be less than the benefits from it if it were to be a justifiable use of resources. That is the benefit-cost ratio must be positive. But, nevertheless, the long range social welfare function of some LDCs may justify the protection of some marginal projects whose benefit-cost ratio is one or less but not negative. See J. Clark-Leith, "The Cost Benefit Approach to Project Selection in an Aid Programme, A report prepared for the Canadian Foreign Aid Division (1968).

31. See F. Andic, et al, Op.cit. P.39. By emphasizing I instead of W here the authors assume that the other variables are held constant while the value of I varies in different countries. This is an unrealistic assumption in view of the differing opportunity cost of factors in different countries. It may be that I was loosely used to mean W.

The first important consideration relating to the above equation concerns the method of determining the value of the variables on the right side of the equation. According to the authors[32] the negative factor Y represents the national income loss likely to occur through the erection of a post-union discriminatory tariff wall which protects inefficient intra-union producers vis-a-vis efficient extra-union producers. This in the traditional theorists's parlance demonstrates the effect of trade diversion. The other negative variable K is treated as the capital cost of a common industry (or industries) to a particular country's account, given the absence of a Union Bank for loan scheme. With respect to F it is measured as: "the total value of imports (including actual imports and any other reduction in imports through lowering of real national income) minus the import content of home production minus the import content of required social overhead capital."[33] As for the so-called industrialization benefits (I) they defy precise definition and measurement as the authors themselves were quick to admit.[34]

With the functional identification of the variables whose values have to be determined, it is now easier to comment on the formula itself. The model assumes two items on the cost side and another two on the benefit side. Hence Y and K are treated as negative factors whilst F and I are considered as positive. Notionally, Y and K can be treated as negative variables but there is no prima facie case to

32. Ibid, P. 36.
33. Ibid, P. 38
34. Ibid,

consider I and F as positive values. Their actual values, which might be positive, zero or even negative, would be a function of the interplay of factors at work under a given situation.[35]

Insofar as the determination of the value of F is concerned, there might be some problems of estimation. As defined in the model total import values cover not just the actual import but also "any other reduction in imports through lowering of real national income." To the extent that the latter stems from a deflationary policy, the manipulation of exchange rates or direct import controls, it would not be very easy to estimate. It is of course possible to apply "shadow pricing" instead of the market price of foreign exchange here but even so this would take care of deflationary pricing of exchange rate manupulations whilst proving itself incapable of dealing with the problem of direct import controls. And it is a fact of common experience that most LDCs in their rationing of their foreign exchange reserves usually supplement fiscal policies with direct controls.

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35. Infact, the findings of an empirical study in the manufacturing sector in Nigeria throw some light on this point. Arthur Lewis (in his "Reflections on Nigeria's Economic Growth, OECD(1967) P1-55) reports that although large - scale manufacturing absorbs great amounts of capital it yields relatively little to Nigerian national income. Suppose we define I as value added by manufacture, he estimates that in 1963 the Nigerian GNP did not benefit by as much as 30% of the value added in the large - scale manufacturing; the rest went to expatriates through factor payments other than rent. Foreign exchange-wise, he came to the conclusion that Nigeria spends more in terms of foreign exchange (on machines, raw materials, expatriate salaries and profits) on making some products at home than she would spend if she were to import the manufactured product itself. Besides many of the home-produced goods survive only because they are protected by tariffs exceeding 30% of value added. The conclusion Authur Lewis reaches in his analysis is that Nigeria is still in the stage where to manufacture some products at home is to reduce the current standard of living in the hope of future gain. Thus, at least, in the short-run there is no a priori reason why the values of I and F must be positive as the model assumes.

However, the induced portion of foreign exchange savings if it took the form of rejected imports applications or quotas by a central authority could be estimated easily from records but where, importers were discouraged from applying for foreign exchange to finance their imports, either as a result of a ban or withdrawal of licences, the actual demand elasticity for imports would be difficult to evaluate.

On the question of applying the above formula in the ranking of home activities within a union, it must be noted that variables F and K may not necessarily received equal weight in all member countries. Because the relative importance of F and K as brake on development might vary from country to country, though this is by no means a very serious weakness; indeed the two variables could, as a first approximation, receive equal weighting with respect to resource availabilities in most LDCs.

One final word about the model relates to the definition of industrialisatio benefits. As indicated previously, the definition of the variable (I) is imprecise and equivocal.[36] The authors argue that the variables Y, F and K should be treated as of short-term importance and measurable whilst I be treated as "diffuse" and of long-range value.[37] This distinction hardly makes the defini tion of I any clearer. Although industrialization is by its very nature a long-term objective and most of its benefits will be realised in the long run, it is equally true that these benefits are mainly structural affecting factors of production directly and indirectly. Through the industrialization effects on factors of production, Y, F and K would also be affected in the long run; hence their long-term growth is a major policy issue. Indeed, their long-run

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36. We will in our own model redefine this factor to render it more quatifiable (see chapter 7).

37. See Andic, et al, Op.cit. P. 38

expansion path is no less important than their short-run value.

Furthermore, to say that I is of long-range importance does not imply that it has no short-term dimension. Employment, which can be considered as a short-term issue here, is a very important element in industrialization policy and cannot be ignored in favour of structural transformation for its own sake. Building new factories can increase job opportunities in the short run irrespective of the long-run structural transformation effects of the new industries on the economy. All these variables have their short-run and long-run aspects; hence the authors' arbitary distinction between short-term and long-term variables is not particularly illuminating.

However, on balance, we can say that the Andics-Dosser technique for ranking integration industries represents an improvement on the previous models reviewed in this chapter. For despite its weakness, it breaks from the old strait jacket of specialization under tariff disarmament - which had become the preoccupation of customs union theorists - and sees integration as a strategy of economic development. Hence it incorporates some key issues (such as: resource availability and use and industrialization objectives) in the Economics of Development in its framework of analysis.

3. A SYNTHESIS.

The above survey has discussed some of the more recent attempts to measure the benefits and costs of integration. Evidently, these studies, despite their merits, highlight the disparate approaches and problems associated with the quantitative estimate of the costs and benefits of integration among LDCs. Judging by their principal characteristics, the methodologies employed, can be classified into three broad groups, namely:

(i) Approaches whose point of reference is national income/welfare;

(ii) Methods based on the pattern of intra-area trade;

and (iii) Techniques focusing on the development and/or geographical distribution of industries.

This classification is by no means watertight nor is it a perfect one. The possibility of some overlap is there; yet, it has been adopted for practical purposes to aid our analysis and for convenience.

To minimise repetition, the main groups mentioned above are briefly considered below, emphasizing principally their common characteristics. No further detailed discussion of each method is attempted.

Studies which follow the first line of approach[38] calculate a member country's gains/loss by the increase/decrease in national income/welfare due to integration-induced industries settling in it under the protection of the protectionist tariff. The benefits of the other member countries are assessed by the increase in exports to the first country. A variant of this "macro-method" is to determine the benefits by calculating the increased aggregate value produced by the expansion of intra-area trade arising out of integration and the consequent increase in national income and in the volume of employment. Although there may be further variations of the national income/welfare approach, the principal focus is on considering the benefits and costs of integration from the standpoint of the economy as a whole. And the main studies in this group

38. A number of studies come within this broad group. They include: F. Andic, et al, op.cit., United Nations, Op.cit.; D. Segal, Op.cit.; A. J. Brown, "Customs Union Versus Economic Separation in Developing Countries", Op.cit.

share the principal features of this macroeconomic model. The Andics-Dosser technique measures the welfare gains or loss from new industries, taking into account industrialization benefits, national income loss, foreign exchange savings and use of capital resources. The welfare benefits of integration industries can also be measured in terms of value added per capita and the UN method approaches the subject from this angle. Segal assesses the gains from new large scale industry both in terms of the industry's foreign investment component and according to typical-year valuation methods. This, like the Andics-Dosser model, will indicate the magnitude of gains or loss in national income/welfare arising from the new undertakings.

Basically, except for differences in assumptions, emphases and analytical tools, the macroeconomic models display minor divergencies.

The methodology of the second group of studies is based on the pattern of intra-area trade. Such studies include those of Ghai[39] and Mead.[40] In its most simplified form, this method computes the benefits and costs obtained or incurred by a country in accordance with the pattern of intra-zonal trade. It is held, as Ghai, argues in the first part of the present chapter, that countries incur a loss by importing from other member countries, since the protectionist common external tariff raises prices within the integration area. The reverse of course occurs where one country exports to the others. From this viewpoint, the decisive factor in calculating gains and losses from integration is the degree of protection afforded by the common external tariff and the destination of trade flows between member countries.

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39. D. P. Ghai, op.cit.,

40. D. C. Mead, "The Distribution of Gains in Customs Unions Between Developing Countries," Kyklos, Vol. XXI, (1968), P. 713.

The third technique that has been applied to the measurement of costs and benefits of integration tries to estimate what the development of a country's industrial sector would have been if there had been no integration and to compare it with the situation where integration exists. Newlyn's study[41] follows this line. Other studies, broadly similar but differing in emphasis, are by Carnoy[42] and Schydlowsky.[43]

In his model, Newlyn assesses the hypothetical industrial development by analysing the country's imports, classified by goods coming from the other member countries and the minimum size of plant required to produce these imported goods. The inference being that if there were no integration, the country could produce goods, the imports of which are equal to or larger than the output of the minimum size of plant.

Carnoy, on the other hand, applies the concept of absolute advantage in determining the "optimum" location points of investments within a union. Once determined, the "optimum" location price at each point is then considered the intra-union price for the commodity in question. The cost to each member of the union of buying from the minimum cost (optimum) production points within the region is compared with the cost of importing from third countries or producing the goods domestically.

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41. W. T. Newlyn, Op. cit.
42. M. Carnoy, Op. cit.
43. D. M. Schydlowsky, "Allocating Integration Industries in the Andean Group", Journal of Common Market Studies, Vol. IX, No. 4 (June 1971) P. 299.

Schydlowsky, like Carnoy, stresses locational considerations. He attempts to estimate the benefits and costs of each of a set of projects based on the regional trade specific value to the production factors used in the projects. He then tries to determine the country in which each of the projects must be located to ensure that the benefits and costs are satisfactorily distributed.

Thus we can see from the foregoing that the differences within each group of methods are more apparent than real. Conceivably, methods within each group which approach the subject of measurement from a common angle or point of reference can be rationalised or integrated into one. Although our discussion of existing techniques is not exhaustive, their reconstruction may seem a worthwhile exercise in view of the necessity to develop more comprehensive and realistic methods of quantifying the benefits and costs of integration in LDCs. To the old and prospective members of a grouping, this is a very important matter since the decision to remain or join hinges largely on the estimated net benefits accruable to each member.

However, synthesising the hitherto disparate approaches to the evaluation of the costs and benefits of integration can, at best, solve half the problem in this area. There are many general issues which, in varying degrees, affect each methodology. Aside from the theoretical questions, attention should be drawn to the practical difficulties in the way of accurate quantification. Some of these are briefly discussed[44] below - though not necessarily in relation to any particular approach as this has been done earlier.

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44. For a more detailed discussion of these issues, see UNCTAD Experts Group Report (A.F. Mohr (Chairman), P. Robson, Rapporteur), Current Problems of Economic Integration, "The distribution of benefits and costs in integration among developing countries", New York, 1973, TD/B/394, PP. 43-45.

(i) One common problem relates to the kind of information required. Most of the methodologies developed necessitate certain statistical data, which are usually unavailable or of poor quality. Methods of measurement involving an estimate of multipliers, input - output matrices or marginal propensities, for example, call for a type of data which, despite efforts so far made, is not yet available in many LDCs. Surely, this is a serious limitation, as it greatly reduces the practical utility of most of the methods discussed.

(ii) In some cases the analyses are based on a partial equilibrium framework; the Carnoy model is a case in point. They cover only some of the specific features of integration, such as industrial development, intra-zonal trade or fiscal revenue. Even if these partial analyses are accurate, they do not make it possible to assess the situation of a country within the integration scheme as a whole. A satisfactory evaluation from the point of view of overall costs and benefits must consider different aspects of the question.

(iii) Attempts at measurement inevitably place great emphasis on quantifiable factors. This is a major weakness because other factors which are not measurable or are hard to measure are left out of account or ignored. It may be noted that the non-quantifiable factors can sometimes be as significant as measurable magnitudes.

(iv) There is the danger of trying to apply a single criterion for benefits and costs to all member countries alike, overlooking the hard fact that benefits and costs may not mean the same thing at the same time to all countries. Undoubtedly, different levels of development, the special circumstances of each country and national objectives in an integration scheme are factors which require a different assessment of benefits and costs for each country concerned. Thus the development of methodologies capable of taking into account the

interests of each of the member countries in required.

(v) Quite often, the opportunity costs of factors of production are ignored. It is assumed that all the factors required for the production process are idle and that the production of goods can therefore be increased without a reduction in any of them. This might be so in exceptional cases but, in general, the critical factors of production (skilled labour and capital) are in short supply hence their relatively high opportunity cost.

(vi) Most of the techniques which have been developed place far too much emphasis on the industrial aspect of integration and its effects on benefits and costs. While it is true that industrial development is a primary objective in programmes of economic co-operation in LDCs and should accordingly be treated as such, this should not imply that all the other sectors of the economy, such as agriculture and services, should be disregarded or relegated to the background. For they too are affected by integration and they too are a source of benefits and costs to the member countries.

(vii) Great importance is usually attached to intra-area trade as a determining factor as far as benefits and costs of integration are concerned. This is because integration as a rule not only modifies the member countries trade flows by increasing intra-zonal trade but also may modify member countries' terms of trade which in turn leads to the reallocation of factors of production. Such reallocation could be either in order to take advantage of new investment opportunities or because some industries are unable to compete with goods from other member countries.

There are also such other problems like the issue of convertible currencies and the development gap between member countries. The expansion of intra-area trade can worsen rather than minimise these problems, depending on the

particular circumstances of a given case.

(viii) Finally, the type of social structure may affect the evaluation of benefits and costs. In centrally-planned economies the mechanism for valuing the price of goods is the plan but in market economies it is the market mechanism It follows that if there are countries in an integration scheme with differing types of social structure, difficulties may arise in calculating, and especially in comparing, the costs incurred and the benefits obtained by the member countries

However, these practical and theoretical difficulties, far from serving as a pretext to leave the problem untouched, should stimulate the search for practical solution, imperfect as each may be in and by itself. In the meantime, decisions have to be made on the basis of the best possible appraisal, and it is plain that even on the basis of the crude data available, quantitative assessments can be made to show which countries are benefiting relatively more and in which fields costs and benefits are occuring.

CHAPTER FIVE

THE PERFORMANCE OF EXISTING INTEGRATION SCHEMES IN WEST AFRICA

Before we go on to assess the benefits of, or, indeed, the basis for, future co-operation in West Africa, it is only natural at this juncture to review past efforts in this direction since this would provide some guidelines in shaping future integration schemes.

Despite the adverse legacies of colonialism, as demonstrated in Chapter one, on economic co-operation in West Africa, several sporadic efforts have been made in more recent years, especially by the francophone countries,[1] to build on the foundation of past economic co-operation. These attempts have had the blessing of the E.C.A., in co-operation with the O.A.U., since 1964 because both organisations have come to regard economic co-operation as a pragmatic way of overcoming, or at least mitigating, the adverse economic effects of narrow national markets. Unlike East Africa, where the experiment in co-operation - though there are now frustrations in the face of the politico-diplomatic tangle between Tanzania and Uganda - has reached a more

1. As noted elsewhere, French West Africa has advanced much farther in this respect than British West Africa. This was partly because the francophone territories, unlike the anglophone countries, had the advantage of geographical contiguity; but, perhaps, a more important explanation is that the French Empire, of which French West Africa was a part, was more closely knit economically than the British Empire to which the countries of British West Africa belonged. Economic co-operation among British West Africa countries took the form of a common currency, the West African pound and the sharing of a number of technical, research and commercial institutions, such as the West Africa Cocoa Research Institute and the West African Airways Corporation. But after independence each country broke away, setting up its own institutions.

advanced stage, the on-going multilateral integration schemes and inter-state organisations in West Africa, which may well provide a nucleus for wider groupings (see Chart 5:1), are still in their embryonic stages. Hence their contributions to the economic development of the region, which we do not measure here, are likely to be limited. This is not to deny - as we shall show in chapter 8 - that some measure of welfare could be derived where integration has successfully induced the establishment of new industries or the expansion of existing ones. For the rest of this chapter we will discuss the experiences and performance of the most important ones.

5.1 THE CUSTOMS UNION OF WEST AFRICAN STATES (UDEAO)

(i) STRUCTURE AND ORGANISATION

The former members of the French West African Federation (Afrique Occidentale Francaise) having learnt from their common history the benefits of corporate development, decided, as they were approaching independence, to form a customs union. The only dissenting voice was Guinea. On June 9, 1959, the West African States of Dahomey, Ivory Coast, Mali, Mauritania, Niger, Senegal and Upper Volta signed a convention which established the first customs union of West African States (Union Douaniere entre less Etats de L'Afrique Occidentale or UDAO). These seven countries intended to maintain the customs union regime in effect before independence and to harmonize import taxation among member countries. Essentially, the UDAO provided for the absence of customs duties and quantitative restrictions on goods in trade between its members but did not call for the elimination of other duties and taxes.

CHART 5.1

WEST AFRICA: MULTILATERAL ECONOMIC ORGANISATIONS

Abbreviations / COUNTRY	ECOWAS	ADB	WACU (UDEAO)	WAMU (UMOA)	ENTENTE	OCAM	NRC	CBC	CPA	IACO	APC	OCCGE	SRB	OERS	MRU
DAHOMEY	X	X	X	X	X	X	X			X		X			
GAMBIA	X										X				
GHANA	X	X							X						
GUINEA	X	X					X					X	X	X	
IVORY COAST	X	X	X	X	X	X	X		X	X		X			
LIBERIA	X	X													X
MALI	X	X	X	X		X	X					X	X	X	
MAURITANIA	X	X	X	X		X						X	X	X	
NIGER	X	X	X	X	X	X	X	X		X	X	X			
NIGERIA	X	X					X	X	X	X	X				
SENEGAL	X	X	X	X		X					X	X	X	X	
SIERRA LEONE	X									X					X
TOGO	X	X		X	X	X			X	X		X			
UPPER VOLTA	X	X	X	X	X	X	X					X			
GUINEA-BISSAU	X														

NOTE:
- ECOWAS = Economic Community of West African States
- ADB = African Development Bank
- WACU = West African Customs Union
- WAMU = West African Monetary Union
- OCAM = Organisation Commune Africaine et Malgache
- NRC = NIGER River Commission
- CBC = Chad Basin Commission
- CPA = Cocoa Producer's Alliance
- IACO = Inter-African Coffee Council
- APC = African Groundnut (Peanut) Council
- OCCGE = Organisation of Co-ordination and Co-operation for the fight against the Major Endemic Diseases (West Africa)
- SRB = Inter-state Committee for the Improvement of the Senegal River Basin
- OERS = Organisation of Senegal River States
- MRU = Mano River Union (between Liberia and Sierra Leone).

By the standard definition[2] of a Customs Union, the UDAO had many essential characteristics to qualify as one. The Absence of tariff and non-tariff barriers between the partners, the establishment of a common external tariff and the general harmonization of tax legislation in member countries were all provided for. The three Principles[3] which governed the union can be outlined as follows:-

(i) The convention stipulated that UDAO members should not levy customs or fiscal duties on trade with other members (Article 1). This provision has to be viewed against the background that duties and taxes on imports have been by far the largest single source of government revenue in these countries, as indeed in most LDCs, partly because foreign trade can be taxed more easily than other sectors and partly because direct taxes are difficult to collect in economies with relatively limited monetized sectors and weak fiscal machinery. Between 1964 and 1966, average proceeds from duties and taxes on imports accounted for about 60% of total tax take in Dahomey, Ivory Coast, and Upper Volta; 45% in Senegal; 40% in Mali; 34% in Niger; and 33% in Mauritania (Table 5:2).

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2. The suppression of discrimination in the field of commodity movements within the union and equalization of tariffs in trade with non-member countries. See Bela Balassa, The Theory of Economic Integration, op. cit., P. 2.

3. See J. E. David (unpublished mono), La creation d'une Organisation de Co-operation Industrielle, Economique et Douaniere entre less Etats members de L'union Douaniere des Etats de L'Ouest (UDEAO); also see IMF, Surveys of African Economies, Op. cit., pp. 14 - 44.

Over the same period, the ratio of revenue from duties and taxes on imports to the value of total imports was estimated at 47% in Upper Volta; 39% in Dahomey; 35% in Ivory Coast, Mali and Seneral; 28% in Niger; and 27% in Mauritania.

(ii) The establishment of a common external tariff extended to both customs and fiscal duties levied by the member countries (i.e. imports from non-member countries were made subject to a common customs tariff). The system, as noted earlier, involved the adoption of a two-tier tariff structure. But, although customs duties were levied for fiscal as well as protective purposes, they were not applicable to imports from France. And they also varied between goods imported from countries receiving most-favoured-nation treatment (goods subject to the minimum tariff) and goods imported from other countries (goods subject to general tariff, usually three times as high as the minimum tariff). Fiscal duties in effect on March 31, 1959 and applied to imports from non-member countries were to be maintained, and all parties to the convention were to agree on any modification or introduction of new duties. The convention specifically precluded any member from changing the level of structure of its import taxes without prior concurrence of all other partners (Article 1).

(iii) The UDAO Convention provided for a Committee of Experts to study the harmonization of the laws and regulations on internal taxes in order to prevent illicit trade between the member countries (Article 3). This committee was also entrusted with undertaking

studies on other matters designed to facilitate the implementation of the convention, particularly problems of double taxation and tax evasion. Measures dealing with such problems could be embodied in multilateral or bilateral agreements to be worked out by the interested parties. The convention did not specifically call for coordination of similar investment regulations; but this objective was partly implied in the expected harmonization of the fiscal systems.

The UDAO Convention also provided for the establishment of several common institutions with a view to settling problems arising from the implementation of the customs union (Articles 2-6). Apart from the joint commissions which were to determine the distribution of revenue from import and export duties and taxes and apart from the Committee of Experts which, as noted above, was to study fiscal harmonization, the convention established a Customs Union Committee vested with desision making powers (Article 5). It was composed of one representative from each member state, and its decision were binding on all parties. The Customs Union Committee was to make decisions on important matters, such as the distribution of revenue collected from import and export duties and taxes and the proposals for fiscal harmonization submitted by the Committee of Experts. Disputes arising from implementation of the customs union could be brought before the Court of Arbitration of the French Community.[4]

Thus, on paper it seemed as if the UDAO would be very successful. But that was not to be. As we explain below the convention virtually became inoperative and inoperable in its original form shortly after it had come into force.

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4. IMF, Ibid.

(ii) PERFORMANCE APPRAISAL

The in-built weaknesses of the UDAO Convention of 1959 made its orderly implementation extremely difficult. Its goals were overambitious, its provisions inflexible and its machinery too complicated to ensure smooth and effective implementation. Some of the more salient weaknesses of the convention are discussed in some detail here.

First, the system of revenue allocation was complex and dilatory. The convention states that receipts from imports and export taxation should be distributed in a manner so as to give each country its appropriate share (Article 2). Joint commissions were to be set up in two or several member states for determining the distribution of receipts on the basis of customs declarations, investigations among traders, and other relevant elements of estimation. Disbursement of receipts was to be made quarterly. To deal with this, arrangements were worked out between member countries for a system of sharing proceeds from duties and taxes on imports. Senegal and Mauritania had an arrangement whereby such proceeds were distributed on the basis of 91.38% for the former and 8.62% for the later. Similar arrangements existed between Ivory Coast and Upper Volta and between Dahomey and Niger. Since the 1959 convention did not settle the problem of origin of goods or define the goods originating within the UDAO area, and whereas goods originating in non-member countries were subject to taxation and reimbursement each time they crossed country boundaries within the UDAO area, the administration of the revenue allocation system proved cumbrous and woolly. There was also the additional factor that various regulations infringed upon the importers' freedom to choose points of entry and hence forced them to fractionate their imports according to countries of final distination.

Secondly, the convention was very inflexible with respect to the right of individual member states to alter its tax structure. Given the fast growth of government expenditures in the post-independence era, it was difficult for member states of the UDAO to adhere strictly to the provision of Article 1 which forbade members to change or modify their import tax system to meet their revenue requirements without the concurrence of all the other members. In practice, each member country did modify its fiscal duties in accordance with its own financial needs. The base of fiscal duties was broadened, rates were raised, and excise taxes were increased. Besides, products originating in member countries were subjected to fiscal duties, beginning in 1962.

Thirdly, the convention failed to provide for adequate consultation between its member states. Consequently, no progress was made in the field of fiscal harmonization. The single body vested with collective decision making, the Customs Union Committee, seemed to be too supranational and powerful to allow for a flexible and realistic approach. Unlike the Equatorial Customs Union established in the same year, UDAO did not call for varied and permanent institutions such as a general secretariat, an executive committee, and a council of heads of state or ministers. In the absence of adequate permanent institutions, none of the goals of the 1959 convention was achieved, except the establishment of a common customs tariff in all UDAO countries.[5]

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5. Ibid. Thus as chapters 8 and 9 will show permanent institutions play a vital role in the smooth and effective operation of integration schemes.

Even so, except between Senegal and Mauritania, whose trade links have been in any case, particularly close, the impact of the convention on the flow of intra-regional trade had been very limited. In the face of this disappointing performance, the UDAO members met in Paris in 1966 to seek ways and means of reshaping their near-inoperable union. Opinions came down heavily in favour of restructuring the organisation with a view to transforming it into a looser association so as to ensure its effectiveness and success.

TABLE 5.2

UDEAO COUNTRIES: RELATIVE IMPORTANCE OF RECEIPTS FROM IMPORT DUTIES[1] AND TAXES.[2] 1964-66

Import Duties[1] and Taxes[2] as a Per Cent of:

	Tax Receipts			Imports		
	1964	1965	1966	1964	1965	1966
Dahomey	60.4	66.0	57.9	37.0	38.6	40.3
Ivory Coast	59.7	62.0	63.4	34.0	34.5	37.3
Mali	51.0	35.6	37.6	36.3	29.1	41.4
Mauritania	41.2	30.2	29.5	36.8	21.3	22.8
Niger	27.1	36.3	38.7	30.6	26.1	26.4
Senegal	47.2	46.2	44.1	37.8	35.7	35.0
Upper Volta	60.5	63.8	n.a.	45.8	50.0	n.a.

Source: IMF. Surveys of African Economics, Vol.3, Washington D.C.1970, p.15

1. Fiscal and customs duties
2. Import turnover tax, and statistical and other surcharges on imports.

THE RESHAPING OF THE UDAO

The result of the Paris Conference was the signing at Abidjan in 1966 of a new convention, establishing with effect from December 15, 1966, the Customs Union of West African States (Union Douanie're des Etats de L'Afrique de L'Ouest, or UDEAO)[6]. Taking into account the diverse fiscal interests of the different states, the UDEAO was more realistic than the UDAO. Indeed, the reshaped union was more of a free trade area than a customs union. It is, however, ironical that while the UDEAC countries transformed their customs union into a broader economic union in 1966, the West African (UDEAO) countries were at the same time going in the opposite direction by transforming their customs union into a much looser customs grouping.

ESSENTIAL CHANGES INTRODUCED BY UDEAO

In terms of scope, as noted above, the 1966 convention did not provide a complete customs union. It sought to ensure the free circulation of local products of members within the area, subject to a certain measure of protection for existing industries and a fiscal tax. With a view to facilitating this, the convention provided for a common customs duty; it also called for a further harmonization of legislation on other import and export taxation in recognition of the evolution of tariff legislation in each country. It excluded any tariff concessions below the minimum tariff on goods imported from countries outside UDEAO (Article 3), but allowed for concessions between the minimum and the general tariff and the origin of imported goods was defined. In a nutshell, the new agreement was more modest, less imprecise and more realistic in its provisions.

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6. Ibid.

The organisational set-up was also more conventional, although this had also led to bureaucracy. A number of permanent institutions consisting of a council of Ministers, a Committee of Experts, and a General Secretariat were established. The Council of Ministers was the supreme policy-making body. The council met once a year in ordinary session and was made up of one member of each government who was ordinarily the Minister of Finance. Its decisions required a simple majority and were binding on all members. Beneath this was a Committee of Experts which acted as an advisory organ of the Secretariat whilst the General Secretary, based in Ouagadougou (Upper Volta), conducted the day-to-day operations of UDEAO under the direction of the Council of Ministers.

IMPACT OF THE UDEAO ON TRADE

Within the intra-union area, commodities grown, extrated or manufactured were exempted from customs duty, but were subject to fiscal duties and other taxes, which in total should not exceed 50% of the aggregate of the most favourable treatment accorded to similar goods imported from third countries (Acticle 6). A higher rate amounting to 70% was authorized to protect an industry that might be less competitive than a new, similar industry in another member country.[7] The convention even allowed pre-existing bilateral arrangements among member countries. For example, the agreements between Ivory Coast and

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7. It is interesting to note the similarity between these provisions and those accorded to Tanzania under the Kampala Treaty of 1967 (see P. Robson, The Reshaping of East African Co-operation, East African Economic Review December, 1967). Although this necessary safeguard is designed to diffuse development rather than encourage polarization within the union, it makes for trade-diversion. In terms of pure theory, it is counter-productive because consumers in the protected infant industry area within the union pay higher prices for similar goods associated with the new industries than the consumers in the other parts of the common market where concessional protective duties are not enforced. This may, of course, be transient and could be defended on dynamic-effect grounds, namely revenue, employment and industrialization.

Upper Volta, signed on March 19, 1963, and between Senegal and Upper Volta, signed on September 7, 1965, remained operative when the UDEAO came into being. Although these agreements were judged to be compatible with the provisions of the 1966 convention, the UDAEO - until it ceased to function on June 1, 1972[8] - scarcely justified the high hopes of its founders. The volume of trade between the member states from 1966 through 1969 increased by 1% for imports and 2% for exports.[9]

Several reasons can be adduced to explain this phenomenon. Generally, the economies of the former UDEAO members do not fulfil the conditions of traditional theory of integration. They are not "potentially very complementary:" their ratio of foreign trade to total, as shown earlier, is very high; their pre-union volume of intra-regional trade is low and in some instances zero whilst the scope of economies of scale is limited, especially where intra-union protective tariffs are conceded.

Planned complementarity seems to be a necessary process in the integration of developing economies. If industries are to be efficient, not only must they be assured of access to a wider market but also they must be specialised on the basis of factor endowments and availability of raw materials. Given the scarcity of resources, those resources should be utilized so as to maximize comparative advantages. Duplication of productive units could be avoided through harmonization of industrial development within the area and reconciliation of national development plans. Without complementarity, the volume of intra-union trade would continue to be low, as governments would often invoke safeguard

8. AFRICA RESEARCH BULLETIN, P. 2375A
9. C. Legum and Associate (eds), Africa Contemporary Record, 1969-70, p.C448.

clauses or take fiscal measures to protect industries from their competitors in other member countries. Furthermore, given the present pattern of production and foreign-oriented trade, it is difficult to expand intra-union trade despite the existence of the customs union. But, if market-oriented food production were expanded - within the framework of the modernisation and diversification of agriculture, and larger import-substitution indistries established within the UDEAO, the proper implementation of the customs union might have increased intra-union trade considerably. In other words, the expansion of the intra-union market would have made it easier to realise the economies of scale.

Another visible problem, which bedevilled the UDEAO and contributed more than any other single factor to its collapse[10], is the question of disparities in development levels. Ivory Coast and Senegal, the most advanced countries in the area, have been developing much faster than the landlocked countries. Available statistics monitor this "development-gap" very clearly: 44% of manufacturing units established in the area originate from Dakar and Abidjan, both of which also account for 60% of electrical power generated and consumed for industrial use. The share of Senegal and Ivory Coast in UDEAO's foreign trade was of the order of 75% in 1965-67.[11] Thus, the UDEAO's inability to cope with the problem of sharing of its benefits and its tendency to polarize development, to the disadvantage of the lesser developed countries must have really contributed to its abolition. However, as we shall discuss in greater detail later, the problem of polarization of development is nothing new to integration literature. If there was really a strong political will among members to overcome this problem, the introduction of some equitable distribution

10. See AFRICA RESEARCH BULLETIN, P. 2375A

11. IMF, Op. cit., P. 38

measures could have saved the situation. There is much to learn from the EAEC experience.[12]

Finally, transport difficulties dealt a serious blow to effective competition and free circulation of goods within the UDEAO. Transport problems, discussed elsewhere, and, particularly high transport costs made it difficult for the exports of the inland countries to compete with those of coastal countries. The former were compelled to reduce producer prices below those prevailing in the coastal countries and thus lowered rural incomes.

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12. The EAEC has had its fair share of a similar problem. The problem of disparity of benefits of the Economic Community has persisted, although it is generally agreed that its operation has been advantageous to the region as a whole. In 1961 the Raisman Commission recommended the introduction of a measure of fiscal compensation from Kenya to Tanzania and Uganda but this did not remove the dissatisfaction of the former. The Kampala-Mbale Agreement of 1965 represented a further attempt to meet Tanzania's claims and to some extent those of Uganda by three chief means, namely: a selective system of firm production reallocation in favour of Tanzania; the imposition on an agreed basis of some quantitative restrictions on inter-country trade; and a formula for the allocation of new regionally - oriented industries such that Tanzania would get the most. This Agreement was not fully implemented; hence it was ineffective. Partly, as a consequence, Tanzania resorted in 1965 and 1966 to sweeping unilateral import restrictions against Kenya. In the light of this development, the Philip Commission was set up to examine and recommend ways and means of strengthening the EAEC and of diffusing development, particularly industrial growth, within the community. It recommended, inter alia, the decentralization of the headquarters of the common services in such a way that each country is allocated two headquarters; quantitative restrictions on basic staple foods or major export crops subject to special marketing arrangements and the imposition of the so-called transfer tax. The recommendations of the Commission were embodied in the 1967 Kampala Treaty and their implementation greatly assuaged the fears and worries of Tanzania and Uganda (See P. Robson, The East African Economic Review, December, 1967). For a similar reason, the Central American Common Market (CACM) is now in danger of collapse. Honduras suspended common market trading later in 1970 when her neighbours, Guatamala and El Salvador, which have attracted most of the industries in the region, had refused to do anything to help her attract new factories. During the second week of September (1972), the representatives of Guatamala, El Salvador and Nicaragua announced they had closed their borders to goods originating from Coast Rica. The action came after Costa Rica decided to impose dual exchange rates, a measure her neighbours claim amounts to a 30% import surtax (see New York Times News Service, 8 September, 1972). The three remaining members have agreed to limit trade among themselves to current levels.

At the same time the landlocked countries paid higher prices for their imported goods, compared with prices in the coastal areas. This anomalous situation points to the urgent need for an adequate integrated transport network in this part of West Africa.

(iii) THE FINAL COLLAPSE OF THE UDEAO

On May 11, 1972, the Secretary-General of the UDEAO, Mr. Tamboura said in Dakar that the UDEAO would cease to function with effect from 1st June and would be replaced by the Communaute Economique de L'Ouest (CEAO).[13] He argued that the three principles of the Customs Union (which was formed on June 9th, 1959): free exchange of goods and persons between member states; the establishment of a common external customs tariff; and the sharing of customs receipts amongst all member states, had not been respected by member countries, "faced for the most part with budgetary problems." In the light of this situation, he went on, the Heads of State decided on June 3rd, 1966 to set up a new convention which would encourage the member states to respect UDEAO's principles. But this decision did not apparently materialise since the Heads of State meeting in Bamako in 1970 gave the general secretariat the task of substituting UDEAO with another organisation having a wider area of co-operation objectives.

On June 3, a treaty insituting the CEAO was signed by the Ivory Coast, Dahomey, Upper Volta, Mali, Mauritania, Niger and Senegal at Bamako. Togo stayed out, though sent an observer. The signing of this treaty sounded the death knell of the UDEAO but marked the birth of the CEAO, which Mr. Tamboura

13. AFRICA RESEARCH BULLETIN, P.2347A (See Section 5.2).

described as "an instrument of progress in the service of our peoples."[14] But as we shall soon see in our later discussion of the ECOWAS and CEAO, this remark is no more than an obiter dictum.

It can be seen from the foregoing reasoning that, ever before the final collapse of the UDEAO, it had become obvious to observers that the grouping needed thorough-going reorganisation and reorientation, if anything was to be salvaged from the union. In this regard, mention should be made here of Je E. David,[15] who made a careful study of the UDEAO problems and made a number of interesting suggestions as to how to reorientate the organisation into an effective organ of corporate development. J.E. David envisaged the creation of an organised zone of commercial exchanges, based on common interests and good faith, among the member states of UDEAO, which felt they would, on balance benefit from membership and would work hard to ensure the success of the integration scheme. According to David the conclusion of inter-state agreements, which would ultimately lead to a Customs Union, would form the initial framework of co-operation. These agreements, however, should include the adoption and definition of the origin principle and a tariff structure conducive to intra-union trade, the proceeds from which would go to a distributable pool. Furthermore, there was to be the creation of an "encouragement fund for indistrialization and for inter-state commerce".

The merits of David's model are clear. The UDEAO might have gone nevertheless but the spirit and momentum of economic co-operation in the region would not only have been kept alive but also given a new lease of life.

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14. Ibid.
15. Je E. David, Op. cit.

The emerging groupings might have been smaller but manageable. And the integrating economies might have been relatively in similar levels of development that none would be in a position to dominate others. However, now that the UDEAO is no more, it will be interesting to see how far David's ideas influenced the formation of the succeeding grouping (see Section 5.6).

(iv) CONCLUSION

We have shown how the UDAO of 1959, plummeted from its inadequacies into a restructured body in 1966 in a bid to rid the union of its ineffectiveness. But, although the reshaped UDEAO, as renamed, was both in orientation and temper very modest, it never fulfilled the aspirations of its members until it was scrapped in 1972. The difficulties, which faced the organisation, as demonstraded above, were essentially structural and organisational: the revenue need of individual states exacerbated by the disparities in inter-country incomes impeded the strict adherence to community principles; transport problems, especially those of landlocked members, impaired intra-union free flow of goods and services; and lastly, inadequate and ineffective administrative machinery rendered the enforcement of trade regulations difficult.

Even if, as noted above, David's proposals for a radical reorientation of economic co-operation in the area were accepted, some of the key obstacles to integration would still persist. This is because these problems (non-complementarity of primary production and trade, public revenue problems and transport difficulties) are fundamentally structural in nature and they are likely to face any future integration experiment in the region. It can therefore be said, without mincing words, that the logic of the situation demands a frontal attack on these structural obstacles.

5.2 COMMUNAUTE ECONOMIQUE DE L'AFRIQUE DE L'OUEST (CEAO)

Francophone West Africa's newest grouping, Communaute Economique de L'Afrique de L'Ouest (CEAO), was formed to replace the defunct UDEAO. As noted in the preceding section, a preliminary agreement instituting the CEAO was signed by the Ivory Coast, Upper Volta, Mali, Dahomey, Mauritania, Niger and Senegal at Bamako on June 3, 1972. Togo stayed out, though sent an observer. But the CEAO was not formally established until April, 1973 following a meeting in Abidjan, where the final treaty was signed.

(i) MEMBERSHIP

The CEAO has six members. They included: Ivory Coast, Mali, Mauritania, Niger, Senegal and Upper Volta. These are the French - speaking states of West Africa which signed the final treaty. Although Dahomey signed the preliminary Bamako accord, it refused to sign the final treaty in Abidjan, opting for observer status instead. Togo never signed any. The new organization was inteded to combine the Entente with the Organization of Senegal River States (OERS). With the exception of Guinea and Dahomey it covers what was untill 1957 French West Africa.

(ii) STRUCTURE AND ORGANISATION

CEAO aims to create a free - trading zone among the Francophone West African countries. It is clearly based on the franc zone and Yaounde - type association with the EEC. Its stated aims are to harmonize and boost the economic activities of its members.[16]

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16. See AFRICA CONFIDENTIAL, May 11, 1973, Vol.14 No. 10 see Also West Africa. December 17, 1973.

It provides for the joint promotion of agricultural and industrial development, and the co-opdination of transport and communications. There are special protocols on livestock production, fishing, the compilation of statistics and accountancy methods. A common export policy is envisaged, and complex internal trade arrangements are to be worked out.

The CEAO is not a customs union per se. A thorough-going customs union would have inevitably encouraged lopsided development within the union as the UDEAO actually did; hence there are to be special preferences. These special preferences - like the imposition of a transfer tax under the EAEC Treaty of 1967 - are designed to minimise the cumulative polarization effects of intra-union free trade on the less developed members. Also the CEAO Treaty provides for the establishment of a development fund to compensate member countries for any revenue losses sustained through the substitution of CEAO - made goods for extra - union imports. The organization's headquarters at Ougadougou will administer the fund.

Compared with the UDEAO, it can be seen that the CEAO is less ambitious in orientation and more realistic in its structure. It is smaller and looks more manageable. It would appear that Je E. David's ideas of a smallder, more manageable zone of commercial exchanges based on common interests and good faith influenced the founding fathers of the new organization.

Should the CEAO actually succeed in creating a common market for the franc - zone countries of West Africa, it could become a closer-knit, better balanced and more effective economic integration scheme than its predecessor, the UDEAO.

(iii) CEAO PROBLEMS

But, the CEAO's future is still very uncertain. Its problems are many and multifarious in nature. And they are not only economic but also political.

In the first place, the creation of the CEAO is part of a complex manoeuvre to counterbalance Nigeria's political and economic weight, and in particular to check her attempts to organise a larger West African economic community in which the former French colonies might achieve a greater degeree of independence. But recent developments in the trend of thoughts with respect to economic integration in West Africa do not favour the CEAO spirit.

Internally, the cohesion of Frncophone Africa seems to be crumbling (and with it some of France's influence). As pointed out earlier, Dahomey and Togo disassociated themselves from the CEAO by refusing to sign the Abidjan Treaty. Dahomey argues that it has commitments to its neighbours and principal trading partners - Nigeria, Ghana and Togo and since none of these belong to the CEAO, it would be very unrealistic to join it. Togo, which has close ethnic and economic associations with Ghana * for its part - has been more interested in working with Nigeria towards the formation of a wider West African economic community which would embrace both anglophone and francophone countries than in the CEAO. Indeed, President Eyadéma of Togo and General Gowon of Nigeria had agreed in April 1972 to form the "nucleus" of such an integration scheme.[17] It is widely believed that this "nucleus" was an attempt by Nigeria to get in ahead before the purely fancophone formation was announced. Conceivably, the CEAO was discussed and planned during the first African tour in 1971 of the late President Pompidou of France when he advised francophone countries to "harmonise their efforts so as to counter-balance the heavy weight of Nigeria."[18]

17. Ibid.
18. Ibid.

Nigeria's reaction to this took the form of an intesified campaign for a wider west African grouping which has resulted to the signing of the ECOWAS treaty. This treaty is discussed in section 5.7.

Within the CEAO itself some members have expressed strong reservations.[19] The erstwhile President of Niger, Hamani Diori, the first CEAO chairman, was quoted as saying that it would be very "unrealistic" to set up a West African Economic Community without the participation of English - speaking countries, arguing that Nigeria was Niger's main African trading partner. Even Mauritania had misgivings and wanted to reserve her right to extend to her Maghred neighbours the same preferences she is to enjoy in the CEAO. Besides, her decision to have her own currency impeded the franc-zone arrangements with the CEAO.

Externally, too, the CEAO took off to a bad start. Officially, the CEAO members say that their new grouping is open to "all African States, be they Francophone or Anglophone . . . to join us and adhere to the Treaty".[20] But, in fact, what is meant here is that other African countries could, if they wished, join the CEAO - once established - in the future. The point is unmistakably implied in a remark on the absence of Anglophone representatives at the Bamako Conference associated with President Houphouet-Boigny: "Great Britain did not take part in the establishment of the EEC and has only later asked to join".[21]

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19. See Africa Confidential, May 11, 1973. Vol. 14 No. 10.

20. West Affica, 7 July, 1972. This statement is credited to President Houphouet-Boigny of the Ivory Coast.

21. Ibid. There is little doubt that the CEAO was intentionally designed to keep the Anglophones out. Ghana applied to attend the Bamako meeting but was told by Senghor it was too late - the intention was to invite the Anglophones to join "later" (A.C. Op.cit).

To say the least, the analogy being drawn here represents a serious misjudgement. The weight of Nigeria, relative to the membership of the CEAO, is enormously greater than that of the United Kingdom relative to the EEC. The entire population of the CEAO (indluding Dahomey and Togo which have so far refused to join) is less than 30 million, clearly less than half the population of Nigeria. The GNP of the CEAO countries, except for the Ivory Coast and Senegal, is pitifully small, and so is their economic growth rate. Specifically, the combined GNP of the present CEAO members accounted for only 52% of that of Nigeria in 1971.

Geographically, the Francophone CEAO is hardly a unit. As already noted, Nigeria is already Niger's major trading partner, whilst Ghana separates Togo and Dahomey from the other members of the CEAO and has strong economic ties with Togo. If anything, the cirumstances of west Africa demand homogamic integration rather than anabatic co-operation.[22] Thus it is really hard to justify the importation of inter-state relations in Europe into the fundamentally different local circumstances of West Africa.

Observers of the West African scene entertain doubts as to whether the setting up of an exclusive francophone grouping is the right answer to the logic of the situation in the sub-region. More recently, however, there has been some evident rethinking on this matter. At their meeting in April 1975 - the first since the CEAO was established - the heads of state of the six member countries invited the other countries in West Africa to join the

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22. Homogamic integration takes place among neighbouring states while anabatic co-operation is formed by non-neighbouring states which are homogamically related by proxy (see Africa, No. 36, August 1974).

organization on the founders' terms.[23] This invitation of course was not accepted by the Anglophones - and the founding fathers of the CEAO, Senghor and Houphouet-Boigny probably knew they would not.

The only published results of the two-day closed session at Niamey were the launching of the existing community, largely ineffective since its formation in 1973, into "the operational phase" of francophone co-operation and the election of President Senghor as the Chairman of the CEAO.[24] But nothing conclusive can be said at this early stage regarding the future of the CEAO. What is clear is that its formation has brought suppressed francophone differences to the surface in some respects: (i) for the first time some Francophone countries opposed the creation of yet another exclusive organisation of francophones which would tend to perpetuate the pre-independence cleavage, in the face of strong French encouragement, if not pressure; and (ii) the traditional conflict of interests between the relatively rich coastal countries and the impoverished, semi-desert landlocked states of the interior was brought frankly into the open.

(iv) CONCLUSION

Given these internal differences, the attainment of economic union through linquistic groups does not adequately take into account the stark realities of the sub-region. Surely, the recent signing of the ECOWAS treaty by all the w 15 states of West Africa in Lagos indicates that the case for a wider and all-embracing grouping in the area is still very persuasive, despite the existence of the CEAO. To some extent, the founding of the CEAO marks yet another milestone in Houphouet-Boigny's lifelong quest for an interstate organizational vehicle suited to his leadership.

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23. West Africa, 5 May, 1975
24. Ibid.

5.3 WEST AFRICAN MONETARY UNION (UMOA)

Perhaps, the most successful post-AOF arrangement for economic co-operation in West Africa has been in the monetary field. Although in some respects the West African Monetary Union (Union Monetaire Ouest Africaine - UMOA) would be regarded as the monetary arm of the UDEAO, the former, unlike the latter, has stood well to the test of time, despite the defection of Mali.[25]

On May 12, 1962 a treaty establishing UMOA and providing for a common currency and a common central bank was signed by the member states of the UDEAO. Togo joined later in 1963. As far back as 1959 the UDEAO members had shared a central bank, the Banque Centrale des Etats de L'Afrique de L'Ouest or BCEAO, which issued a common currency, the CFA franc. However, the old BCEAO was dissolved on October 31, 1962 and was replaced by a new central bank of the same name but with enlarged responsibilities and an intergovernmental organization. On the same day the BCEAO countries concluded with France a co-operation agreement by which France guaranteed the convertibility of the CFA franc, issued by the BCEAO, into French Francs, and the members of the UMOA undertook to keep their external reserves in an operations account opened by the new BCEAO at the French Treasury, with which a special relationship was established. It must be noted at this point that the treaty establishing the UMOA and the agreement for cooperation are two separate documents; indeed the treaty providing for a monetary union and a common central bank could continue in force even if the agreement for cooperation were to be abrogated

25. Mali did not ratify the treaty establishing UMOA and did not join in the cooperation agreement. However, after the 1967 devaluation of the Mali franc and negotiations with France, Mali established an operations account, with effect from March 29, 1968, and its agreements with France provide that it may eventually join UMAO (see IMF, op. cit., P. 24). See also Africa Research Bulletin, P. 2375A.

26. IMF., Ibid., P. 71

The BCEAO has a closely knit but simple organisation run at two levels. Though with its headquarters in Paris, the central bank maintains an agency in the capital of each member country and has established sub-agencies in some other places within the UMOA territory. The over-all management of BCEAO is entrusted to a Board of Directors in which each member country appoints two directors, from whom one is elected President;[27] and France, under the provisions of the cooperation agreement, appoints seven directors, or the equivalent of half of the total number appointed by the UMOA countries. As a general rule, the decisions of the Board are taken by a simple majority, but, in practice, certain important decisions must be adopted by a two-third majority - indeed, amendments of the statues requires the unanimous decision of the Board.[28]

Beneath the Board, a five-member National Monetary Committee, appointed, in each member country, by the government and including the two national directors, implements the general credit and rediscount policy decisions taken by the Board of Directors.[29] Day-to-day running of BCEAO is entrusted to a Director - General, appointed for an indefinite term by the Board of Directors. The Director-General attends, either personally or through a delegate, all meetings of the Board and the National Monetary Committees. He also represents BCEAO in all its external relations. All BCEAO personnel are appointed and removed from office by the Director-General, although appointment of agency managers requires the prior approval of the government of the country in which the agency is established.[30]

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27. Ibid., P. 72
28. Ibid.
29. Ibid.
30. Ibid.

Generally speaking, the division of responsibilities between these two levels of administration is that the Board is responsible for, namely: fixing the overall supply of short-term credit in the light of resources and needs; fixing the discount rate; determining the ceilings to be granted by the local branches of the Central Bank to each economy in respect of rediscounts, advances and so on. The National Monetary Committees, in their turn, are responsible for advising the Board from time to time on the credit limits in the individual BCEAO countries. When these have been fixed they are responsible for determining the ceilings for each local bank and for individual enterprises. Also the Central Bank can sometimes delegate some power to the Monetary Committees to act on its behalf in certain matters.

Three most important functions of the BCEAO can be distinguished. These include: the monopoly of note issue; a depository of external reserves and credit creation.

BCEAO, in its capacity as a Central Bank, has the sole right to issue the CFA franc in each member country. The official rate of the CFA franc, which, as noted earlier, is fully convertible into French francs, was CFAF 613.25 = £1.00 (sterling) as at 14 August, 1972; but the relationship of the CFA franc to the French franc has always remained[31] at CFAF1 = FO.02 (F1.0 = CFAF 50). The effectiveness of UMOA with respect to overcoming internal payment problems has been remarkable.

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31. The apparent constancy in the rate of exchange between the CFA franc and the French franc is explained by the fact that the CFA franc is, by ag agreement, automatically convertible into the French franc, hence they appreciate or depreciate simultaneously in value. For latest exchange rates, see Africa Research Bulletin, P.2437.

Because notes and coins issued by BCEAO are legal tender in all member countries and circulate freely within UMOA Statistics, based on issuance of each country's notes and withdrawal of notes of other countries, reveal a fairly large inter-country circulation of notes, particularly between Mauritania and Senegal, between Dahomey and Togo, and among Ivory Coast, Niger and Upper Volta.[32]

The other function of BCEAO is that it acts as the depository of UMOA members' external reserves. These reserves are held in, what is termed, an operations account at the French Treasury. As indicated above, the procedural aspects of the centralization of BCEAO's reserves in the operations account are regulated by a convention between BCEAO and the French Treasury. A recent amendment to this convention dated June 2, 1967 makes it possible for BCEAO to invest part of its exchange reserves in certain types of negotiable bonds, maturing within two years, issued by international organizations of which all BCEAO countries are members.[33] Since this amendment, BCEAO has invested part of its foreign reserves in short-term bonds issued by the International Bank for Reconstruction and Development (World Bank).

Pursuant to the cooperation agreement concerning the operations account BCEAO can apply specific measures in case of a continuous and sizeable reduction of exchange reserves.

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32. Ibid, P. 73. Although all the notes and coins circulating within UMOA are issued by BCEAO, identification of CFA notes by a letter following the serial number enables BCEAO to keep separate accounts for each country's currency in circulation. Coins are not identified by country and they account for roughly only 4% of total currency in circulation (Ibid).

33. Ibid.

For example, BCEAO's discount rate and charges on advances must be increased by 1% point if the operations account for the area as a whole with the French Treasury shows a debit for 60 days.[34] Also, in the event that the deposits in this account are exhausted, BCEAO may require public and private organizations to surrender their French francs or other foreign currency holdings to it[35] against CFA francs. But BCEAO, at its discretion, may restrict this requirement solely to public institutions and banks and may implement it only in countries whose external transactions through the operations account show a deficit.

The third major role of BCEAO relates to credit creation. Within the framework of rediscount ceilings which are the principal means of control, BCEAO is authorized to extend both short-term and medium-term credit. Short-term credit is extended in the form of rediscount of short-term paper and temporary advances (prises en pension) against private and government paper, as well as direct advances secured by either gold or foreign exchange and securities acceptable to BCEAO. Normally the period for which short-term credit is granted is limited to six months, but it may be extended up to nine months for financing crops and public contracts.[36] Medium-term credits are granted by BCEAO for periods not exceeding five years.

Furthermore, BCEAO may grant the Treasury of any UMOA country ways-and-means or short-term advances for a period not exceeding 240 days, consecutive or not, per calendar year, and in an amount, not exceeding 10% of the government's fiscal receipts during the preceding budgetary year.

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34. Ibid, P. 74
35. It must be stressed here that the French Treasury pays interest to BCEAO on balances in the operations account at an annual rate at least equal to the re rediscount rate of the Bank of France, but never less than 2.5%; in 1967/68 the effective rate was 5.3%. The BCEAO, on the other hand, pays intrest to France on any overdraft balance at an annual rate between 1% and the rediscount rate of the Bank of France, depending on the amount (see Ibid).
36. Ibid, P. 75

On December 10, 1968, however, the BCEAO statutes were amended to enable the Board of Directors, after reviewing developments in the currency issue and evaluating the effects of its decision on the development of the currency issue, to raise the maximum amount of short-term advances to an amount equal to 15% of fiscal receipts.[37] In addition, BCEAO may discount Treasury customs duty bills, provided such bills have a maturity of less than four months, have been issued by a solvent debtor, and are guaranteed by a bank. Also Treasury bills of UMOA member countries with a maturity of less than six months say be (i) rediscounted or accepted for temporary advances; (ii) accepted as collateral for an advance within the limits fixed by the Board of Directors; and (iii) bought from or sold to the banks without endorsement, provided that banks do not act as intermediaries for the Treasuries.[38]

Despite the above credit facilities, the BCEAO's provision of credits has, in general, been on a modest scale. Although practically all UMOA governments have at one stage or another taken advantage of the BCEAO's ways-and-means advances, only Dahomey, Niger and Upper Volta could be said to have made really intensive use of this facility as these countries have experienced the most severe fiscal problems. Similarly, short-term credits in the form of advances secured by either gold or foreign exchange have not been provided so far.

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37. Ibid, P. 77
38. Ibid.

Apart from technical factors, one probable reason for the limited use of the credit facilities of BCEAO concerns the fact that UMOA member governments have often been able to obtain any needed short-term advances from the French treasury at reasonably low rates of interest. The French attitude regarding financial support to its former colonies is relatively permissive. For, as the Jeanneney Report states: "France in effect renounces the possibility of refusing to finance initiatives taken unilaterially by African Governments, in return the States accept a certain monetary tutelage, particularly in the matter of deficit financing".[39] The corollary here is that France would continue to finance, subject to its own financial limitations, development projects from these governments which appear to it to be sound.

Also it must be recognised that the primary objective of BCEAO's credit policy is to facilitate orderly economic growth in member countries while maintaining an appropriate balance between financial and real resources. Given this policy constraint, BCEAO's credit expansion must necessarily be kept in constant check. It is against this background that the recorded average annual rates of credit expansion - of 17% from 1962 through 1964, of 6% from 1964 to 1966 and of 13% between 1967 and 1969[40] - could be regarded as reasonable.

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39. Cited in P. Robson, Economic Integration in Africa, op. cit., P.207
40. IMF, Op. cit., PP. 84 - 89

BCEAO COUNTRIES: NET FOREIGN EXCHANGE HOLDINGS, 1962-69

(In billions of CFA Francs; end of period)

	1962	1963	1964	1965	1966	1967	1968	1969 (SEPT)
Central Bank (net)[1]								
Dahomey	2.47	2.45	2.44	2.51	2.27	1.98	2.35	2.18
Ivory Coast	8.67	9.79	9.34	14.62	14.92	16.97	18.21	15.57
Mauritania	1.96	2.32	2.57	2.41	1.92	2.17	1.84	1.44
Niger	2.31	2.10	1.75	0.73	0.94	0.15	0.58	1.78
Senegal	17.97	11.83	8.41	8.25	11.27	8.44	3.64	4.17
Togo	2.12	2.22	2.83	4.32	4.58	5.46	6.22	6.41
UPPER Volta	3.38	3.52	3.30	3.44	4.01	4.50	5.58	5.95
Total Central Bank	40.49	35.94	32.55	38.28	42.30	42.37	42.24	45.02

1. Aggregate net holdings of the Central Bank do not equal the sum of the shares allocated to each member country because small amounts of the Bank's assets are not allocable to any particular UMOA member.

Source: IMF, Ibid, P. 122

Aside from the three principal functions discussed above, BCEAO has a veriety of other responsibilities usually associated with a central bank. They include the supervision of the national credit institutions in accordance with the national regulations, managing the accounts of national Treasuries, giving expert advice to the Treasuries and maintaining deposits for the commercial banks.

By conventional definition,[41] UMOA is a complete monetary union. There are not only a complete pooling of monetary reserves and the issue of a common currency for the participating countries but also a substantial integration of their financial markets and the removal of all obstacles to internal payments and transfers. In this way intra-regional balance-of-payments problems are mitigated, or even eliminated,[42] whilst extra-regional payments problems are alleviated since union members can add to their foreign currency holdings that portion of their foreign exchange which would otherwise have been spent in settling intra-regional trade accounts. Furthermore, UMOA through the operations of BCEAO facilitates the co-ordination of other economic policies of its members with respect to trade and economic development in general. These are the great advantages of a monetary union.

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41. See Chapter 6 of this thesis

42. Although the volume of intra-union trade among the UMOA members has not fundamentally improved, over the past decade, nevertheless the existence of a common currency points the way towards the expansion of intra-zonal trade.

Ironically, these advantages are also a source of weakness. In the first place, a monetary union of the UMOA variety robs its members of the power to pursue different monetary policies which their different economic problems might warrant. In particular, the limitation on the freedom of individual members to alter their competitive positions through exchange-rate manipulation vis-a-vis other members and the outside world can hurt the weaker union partners. Indeed, specific actions may sometimes be required to deal with the problems of such disadvantaged members. Thus, unless all members are content to keep in line with each other in all aspects of monetary policy - credit expansion, exchange control measures, etc. - problems are bound to arise. Unhappily, some UMOA member economies are doing well while others are not; hence the latter group may not be completely satisfied with union-inspired common policies which do not allow for individual initiatives. Consider the figures in Table 5.3. It is evident from the Table that while the net assets of Ivory Coast rose steadily from 1962 to 1968 (with the exception of 1964) those of Senegal showed a steady decline over the same period, except in 1966. Togo and Upper Volta also improved their asset positions continuously but those of Dahomey, Mauritania and Niger declined persistently during the period. Perhaps, the freedom to adopt the necessary monetary measures, in a given situation, could have helped the reserve-scarce UMOA countries to improve their reserve position. Thus one is bound to weigh the immense advantages of UMOA against the likely pressures which would be brought to bear upon it by the seemingly divergent development policies within different member countries and by the effects of such policies.

However, there are, at present, two strong stabilising factors at work within the UMOA. The first is, as we noted above, the existence of alternative sources of finance from the French government. The reserve-poor UMOA members can meet their foreign exchange requirements outside the union, thereby mitigating the foreign exchange pressure. The second factor is the flexibility and vigilance, as exemplified in the 1968 amendement, which the BCEAO has demonstrated in its credit operation. As pointed out already, this amendment increases from 10 to 15% (of each member's fiscal receipts) the maximum amount of short-term advances which each member can receive from BCEAO. This, no doubt, shows that BCEAO watches very closely the credit problems of its members in their process of development and is willing to accommodate them within its own limitations.

On the whole one can on general ground entertain doubts as to the ability of a monetary union to meet the credit requirements of all its members, given the possibility of differences in levels and rates of economic development among its members and the internal pressures which these differences are likely to generate. But when viewed from the standpoint of a particular case, as in this: the UMOA, and the stabilising factors at work within it, one is tempted to conclude that the advantages outweigh the disadvantages.

5.4 THE ENTENTE COUNCIL (CONSEIL DE L'ENTENTE)

(i) STRUCTURE AND ORIENTATION

During the days of the AOF up to the formation of the UDAO, the Ivory Coast discovered to its chargrin that it was contributing about half the region's exports and tax revenue but was receiving only a fourth of its imports and total expenditures.[43] The Ivorian government was thus unwilling to continue subsidizing the weaker economies of the area, especially that of Senegal, in this way. Also the Ivory Coast was anxious to counterbalance the then Mali Federation's appeal[44] to Dahomey and Niger and to protect its potential markets in, and commercial transport links with, the other countries. Apparently, to give expression to these aspirations President Houphouet-Boigny spearheaded the founding of the Entente Council in 1959[45]. In setting up the Entente, Niger presented the fewest problems for Houphouet, for its then president, Hamani Diori, was one of his most devoted followers. But Dahomey and Upper Volta proved far more difficult. Indeed, it took all his skill as well as financial inducements to bring Upper Volta and Dahomey into the Entente under the Ivory Coast leadership. The foundation members thus included: the Ivory Coast, Niger, Upper Volta and Dahomey. Togo did not join until June 8, 196

In essence, the Entente is an "informal instrument"[46] for the co-ordination of politico-economic policies based on political understanding among its members. It is an organization based solidly on self-interest. Because of the similarity of their problems and of their backgrounds as former French dependencies,

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43. See R.H. Green and Associate, Unity or Poverty? Op. cit., P.151.
44. Ibid
45. Ibid
46 See P.Robson, Economic Integration in Africa, Op. cit., P.246. Also see Virginia Thompson, West Africa's Council of the Entente, Cornell University Press, 1972, P. 274.

its members have over the past fifteen years developed a good deal of understanding and a spirit of corporate existence among themselves. The Entente hardly fits into any formal definition of an integration scheme, if judged by the conventional definitions discussed in chapter one. Nevertheless, the 1959 agreement which established it did contain two potentially important economic provisions.[47] The first envisaged the harmonization of the countries' development plans but, lamentably, this has so far remained a pipe dream. The second provided for the establishment of a Solidarity Fund which is discussed below.

By its very nature, the organisation of the Entente Council is loose and personalised. The Heads of State of its members and their ministers meet regularly, at least twice a year, during which policy decisions are taken. And there is a permanent secretariat headed by Mr. Paul Kaya to execute the decisions taken at the Ministerial level. In practice, however, much depends on how the creator and uncontested leader of the Entente, President Felix Houphouet Boigny of the Ivory Coast reacts to these decisions. It is contended that his consistent moral financial support could be regarded as the major reason for the survival of the Entente to date.[48] As we shall see in the course of this discussion, there is much to support this view.

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47. R. Robson, Op. cit.,

48. See T. Golan, "What role for the U.S. in Africa"?, 23 October, 1972. Thompson asserts that "their chronic and imperative need for the funds which Ivory Coast has supplied is what has kept Upper Volta, Dahomey, Togo, and Niger members of the Entente, for as individual countries they are not economically viable (V. Thompson, Op. cit., P. 277).

(ii) HISTORY AND ACTIVITIES OF THE ENTENTE

As indicated above, the establishment of a Solidarity Fund was one of the key provisions in the Entente Agreement of 1959. Although the Ivory Coast has always insisted on a free hand in promoting private - mainly foreign - investment in industry, the setting up of the Solidarity Fund in 1959 was prima facie, a tacit acknowledgement on its part of the fact that unbalanced regional development, especially within a grouping, has its dangers.

On paper the fund was to receive for redistribution 10% of the revenues of each member state. But in practice members did not strictly adhere to this principle. Indeed, the Solidarity Fund seems to have operated informally as the means through which the Ivory Coast (or rather its President) has subsidised the budgets of the other members as and when required, from resources not subject to public scrutiny in Ivory Coast.[49] Hence no provision for payment of the subsidies ever appeared in the Ivory Coast budget, though until recently, Solidarity Fund receipts were recorded in the budgets of the other members. The accounts of the Fund were not subject to audit.[50]

However, despite the operation of the Solidarity Fund the disparity between the wealth of Ivory Coast and the indigence of its four partners continued to grow. One indicator of this overwhelming economic superiority is presented in Table 5.4.

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49. See P. Robson, Economic Integration in Africa, Op. cit., P. 247
50. Ibid.

The Table clearly demonstrates that the Ivory Coast dominates the Entente market even when Ghana is brought into the picture.[51] While the former contributed about 41% of the Ghana-Entente exports its imports account for a mere 17.5% of total. Apart from the Ivory Coast, the landlocked states of Upper Volta and Niger countribute relatively more than the rest to intra-area trade. Their share of exports is roughly 16% each whilst the import figures are 13.5% for Niger but more than 35% in the case of Upper Volta. As shown in Table 2.15 (Col. 8), this is a reflection of their heavy dependence on intra-zonal trade rather than their economic strength. Ghana buys almost as much as it sells to the area, and this is true of Togo, if only to a lesser extent. Dahomey exports less (8.6%) and imports more (14.6%).

Aside from the share of Ivory Coast's trade, its composition is another source of discomfort to its partners. It exports predominantly manufactures but imports mainly raw materials and animal products; hence the accusation that the Ivory Coast has been promoting its own economic development by treating its partners as suppliers of raw materials and markets for its output.[52]

To this end, a further attempt was made in 1965 to infuse a new life into the Entente. This took the form of the Houphouet-Boigny's Convention on dual nationality and economic harmonization.[53]

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51. Ghana is not a member of the Entente but it has been included in the table for comparative reasons as well as to show its close trade links with the Entente states.

52. See V. Thompson, On. cit, P. 272.

53. See Convention on Dual Nationality and Economic Harmonization, Abidjan, 1965.

TABLE 5.4

INTRA-GHANA ENTENTE TRADE, 1968-72 PERCENT (AVERAGE)*

IMPORTING COUNTRIES	EXPORTING COUNTRIES						
	GHANA	IVORY COAST	NIGER	UPPER VOLTA	DAHOMEY	TOGO	GECS
GHANA	-	1.1	1.5	3.9	0.5	3.5	10.5
IVORY COAST	-	-	4.4	10.9	2.2	. .	17.5
NIGER	1.9	6.0	-	1.1	3.6	0.9	13.5
UPPER VOLTA	4.9	29.6	0.6	-	0.1	0.4	35.6
DAHOMEY	0.3	2.7	8.5	0.1	-	3.0	14.6
TOGO	3.5	1.6	0.8	0.4	2.2	-	8.5
TOTAL	10.6	41.0	15.8	16.4	8.6	7.8	100

*Figures are subject to rounding error.

Source: Computed from IMF, Direction of Trade: Annual, 1968 - 72.

The economic harmonization provisions reflected the pressures which had been building up all along, from weaker Entente members, to encourage a more equitable distribution of industrial development. As for the reciprocal citizenship provisions within the Entente, they were primarily inspired by the large size of immigrant labour force from other Entente countries in the Ivory Coast (see chapter 6). However, as events came to show, the double nationality proposal proved an error of judgement on the part of the Ivorian President. He misjudged the reactions of his countrymen to the proposal, particularly the white-collar workers who bitterly opposed the idea on the grounds that it constituted a threat to their employment. Equally, the proposal was not very popular among other Entente states, especially Upper Volta. For given the attraction which the Ivory Coast offers as an island of prosperity and opportunities in a sea of poverty and deprivation, immigrants from other Entente countries would tend to settle in it. This in turn would deprive the poorer Entente states of an important element in their balance of payments account - receipts in form of transfers from their nationals working in other Entente countries, in particular the Ivory Coast.

In the end the President could not even achieve some form of mondus vivendi. To his dismay, he was forced to withdraw his proposal by the Bureau Politique and the entire convention was not ratified.[54]

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54. See "The Financial Times", December 8, 1971. Also see P. Robson Economic Integration in Africa, op. cit.

In the continuing search for ways and means of strenghtening the Entente Council, a Mutual Aid and Guarantee Fund was created in 1966. The establishment of this fund formally superseded the Solidarity Fund. The Object of the new fund was to stimulate private investment within the Entente area through the establishment of a guarantee fund.[55] A secretariat under Mr. Paul Kaya aided by three French and one American adviser, administers the fund. But policy decisions are normally taken at the occasional meetings of the Management Committee of the Fund. As with the old Solidarity Fund, the Ivory Coast has been its principal source of finance. Of its capital of 1,300 CFAF million, the Ivory Coast provided 1,000 CFAF million.[56] Despite its vastly disproportionate contribution to the fund, the Ivory Coast - in order to enable the less developed members of the grouping to reap the initial benefits - agreed not to draw on the fund for the first five years of its operation.

In so far as the finaicial operations of the fund are concerned, they are organised at two distinct, though not mutually exclusive, levels. The first is the loan activities and the second relates to the management of the Intervention Budget of the Fund. By the end of 1969 loan disbursements of the Fund to its members had reached a total figure of 1,249 CFAF million.[57] Of this figure 97.5 CFAF million went to the Chamber of Commerce of Upper Volta for the construction of storage facilities for its export products at Ouagadougou; 330.2 CFAF million was granted to Dahomey for the agricultural industrial

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55. Ibid.

56. See T. Golan in West Africa, 23 October, 1972. Also see Entente Africaine, A Quarterly Review, (6) March, 1971, P. 7.

57. See Bulletin De L'Afrique Noire, No. 586. February 11, 1970. Also see Thompson, Op. cit. P. 270

complex of the organisation of SODAK (Societe Dahomeene du Kenaf); 330 CFAF million was allocated to Togo for the improvement of its capital, Lome; 64.9 CFAF million was received by Niger for the sinking of wells; 223.9 CFAF million went to ICODA (Industries Cotonnieres du Dahomey) for the construction of a textile factory at Cotonou; Upper Volta got another 75.8 CFAF million for the acquisition of material for public works and 127.2 CFAF million was allocated to the Public Building Society of the Entente for the construction of the House of the Council sited at Lome.

The Intervention Budget of the Fund, unlike its loan scheme, does not guarantee loans per se but it tries, within the resources at its disposal, to bell out - either by subsidising, underwriting whole or part of costs of projects or loans on concessional terms members who having started a project are unable, due to financial reasons, to complete it. It can also intervene to finance projects of general interest to the Entente.[58] In practice, the intervention budget is biased in favour of economic feasibility and other studies of common interest to the grouping. This is deducible from the projects it has funded over the past five years. They include the completion of the study on Marble quarrying in Dahomey; an additional study on Meat production within the Entente; the possibilities of an exchange of manufactured goods within the member states; a study on endemic diseases and an advance payment to the state of Niger for its drilling programme, to mention a few.[59]

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58. Bulletin De L'Affique Noire, No. 586.
59. For further information, see Ibid.

It is undoubtedly clear from the foregoing that the main advantage of the Intervention Budget lies in the fact that it supports projects of social infrastructural nature which are not particularly attractive to private enterprise. For example, the study on the exchange of manufactured products within the Entente[60] is of interest to all the member states but it is unlikely that a profit-maximising private enterprise would have undertaken it. The study assesses the tempo and areas of industrial exchanges within the grouping and identifies the industries likely to benefit from expansion on regional scale. It notes that in 1967 oil products represented 12.4% of intra-zonal exchange of industrial products whilst mechanical and metal processing accounted for 11.2%. It classifies, inter alia, vehicles, aluminium sheets, cigarettes, beer and cement products as possible areas for the promotion and harmonization of industrial exchanges.

Thus viewed from the standpoint of its activities, it can be said that the Mutual Aid and Guarantee Fund of the Entente is showing some effect within the grouping but whether this would materially and substantially influence the rapid development of the poorer economies within the Entente remains to be seen.

The latest major initiative which the Entente has taken towards the strengthening of economic co-operation among its members was the creation of an Economic Community of Cattle and Meat (ECCM). In may, 1971, the Presidents of the Entente States signed the ordinance creating the ECCM in Ouagadougou.

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60. Bulletin De L'Afrique Noire, No. 591, March 18, 1970. This issue provides an impressive summary of the study.

The goal of the ECCM is "to further together within a regional framework the commercialisation of cattle and meat within the boundaries of each country, between the member states and between the member states and third countries; whether they be neighbours or not and especially those of the OCAM group."[61]

Quite naturally, the attainment of this goal falls squarely on the two bodies that implement the ECCM. First, there is a supreme policy - making body comprising the council of ministers. It has the responsibility of defining not only policy but of fixing the contributions of member states. It convenes at least once a year and its decisions are taken by a unanimous vote of members. Below the Council of Ministers is an executive secretariat at Ouagadougou, which is directed by an executive secretary, Dr. Roger Tall. The responsibility of the secretariat is limited to the execution of studies or instruction and to the elaboration of programmes and propositions decided upon by the supreme decision - making body.[62]

It is still too early to comment on the performance of the ECCM. Indeed, there are still important questions to resolve before the ECCM becomes fully operational, such as customs and fiscal regulations.[63] Despite several conferences the Entente members could not reach agreement on all matters with respect to the creation of the ECCM before the agreement was signed. The usual conflict between the interior and the coastal states resulted in a deadlock at some stage. They remained squarely opposed on matters such as the location of slaughter houses, fiscal and customs policy, prices for producers and to consumers, and investment priorities.[64]

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61. Ibid.
62. Ibid.
63. Ibid.
64. Ibid.

The situation was further complicated when the United States authorised its first large-scale loan of US $6 million to the Entente in early 1971 to support investment in Livestock within the framework of the ECCM.[65] With the availability of this substantial amount of money to spend existing differences among the members with respect to the preparation of protocols and selection of investment priorities gathered force. In the end the ECCM agreement of 1971 was signed, without resolving such vital issues as customs and fiscal regulations, only when it became clear that the United States loan would after all not materialise unless some structure was set up to justify the loan.[66]

In these circumstances, it can hardly be said that the ECCM got off to a good start. Although each country had a long list of projects for which it was soliciting loans, they tended to concern the country's narrow internal interests. Effective co-opdinated planning within the regional framework must yield place to peti-economic nationalism if the cherished goal of the ECCM is to be achieved.

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65. The US aid to the individual Entente States (Dahomey, Ivory Coast, Niger, Togo and Upper Volta) from 1960 through 1968 amounted to US $59.9 million but only $5.7m of this was classified as regional aid, the rest being bilateral commitments. But since 1969 there has been a sharp policy shift from bilateral to regional aid, if only to minimise the political factors and to improve the economic effectiveness of aid. Total regional aid to the Entente from the United States stood at $6.6m in 1969; $4.6m in 1970; $13.8m in 1971 and $20.0m in 1972. See Ibid.

66. Ibid.

(iii) POLITICAL DIMENSION AND INTER - STATE RELATIONS

In reviewing the past activities and future aspirations of the Entente, one should not lose sight of the political dimension of the issues involved. As we noted earlier, the base of the Entente is more political than economic,[67] hence the dominance of political factors in its affairs.

Generally speaking, the Entente states display some degree of political cohesion. Their regimes are moderate favouring liberal economic policy and they tend to present a co-ordinated front on African and world issues; they share the same colonial past; they all belong to the franc zone and, except the Ghananian "enclave", they form a geographically contiguous "bloc".

However, the degree of political cohesion existing between the Entente member states is more apparent than real. For one thing, the conflict between the North and South or the Sahel and Coastal areas has always been there. In more recent years, especially since 1970, a succession of crises has thwarted whatever political cohesion that existed between the member states of Entente. In November, 1970, the Ivorian government felt compelled - ostensibly for security reasons - in the wake of the Guinea invasion and students' demonstrations, to expel some 500 students[68] belonging to the Entente states,

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67. The 1961 agreement between France and the Entente states, which is one of the pillars on which the groupings stands, covered a range of issues, including defence, legal, social and economic matters. Upper Volta did not sign that aspect of the package deal which related to defence (see Africa South of Sahara, 1971, Europa Publications, P. 89 & 119).

68. See T. Golan in West Africa, 30, October, 1972

an act which did not endear the Ivorian President to his Entente partners. Instead of a thaw, a further rift in inter-state relations developed in 1971, when the Ivory Coast clearly failed to get the support of his fellow Entente members for its policy of "Dialogue with South Africa" at the OAU summit in Addis Ababa. Again, at the 1972 OAU summit, only Niger voted for the Voltaic candidate, Mr. Malick.

This political disharmony must be seen against the background of the personality of the Ivorian President within the Entente. As indicated already, he is the hub on which the activities of the grouping revolve and they merely seem to reflect his personal policies. This dominance has been resented in the past but not diminished. Indeed, the chief weakness of the Entente lies not so much in the inequalities of its partnership, the artificiality of its boundaries, or the lack of group goals and organizational structure as in its overdependence on one man whose principal objectives are personal and national aggrandizement.[69] Given that Houphouet does not operate according to any fixed ideological guidelines, should he suddenly decide that the game of maintaining that organisation is no longer worth the candle or should Ivory Coast's prosperity falter and its subsidies cease, the Entente would doubtless dissolve.

But the most immediate danger for the Entente's solidarity is the resurgence of Nigeria and its increasing role and influence in West Africa and, to a lesser degree, Ghana's efforts to revive its economy and to repair the damage done to its neighbours by the expulsion of thousands of their nationals.

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69. See V. Thompson, Op. cit, P. 284.

If the Ghana government succeeds in reasserting its attraction for Upper Volta and Togo, and if Niger and Dahomey are drawn into Nigeria's orbit,[70] Ivory Coast may find itself relatively isolated in the region. However, whether this will happen or not depends largely on the existence of a more balanced intra-Entente development, the creation of the right political atmosphere within the grouping and, above all, the state of inter-state relations in the wider context of West Africa following the formation of the ECOWAS.

(iv) CONCLUSION

What emerges from the preceding discussion is that the Entente council has operated as a loose grouping in the face of difficulties. It could have some impact on the economic development of the area but only to a very limited extent. To start with only in the case of Upper Volta does intra-area trade account for a large part (actually $\frac{2}{3}$) of its total exports. In no other case does it account for more than 10% of trade; and in the case of Ivory Coast it contributes only 3% of total exports.

However, it would appear that, irrespective of the limited contributions of a grouping of the Entente variety to the rate of economic growth, it is important to diffuse development in the area, create the right political atmosphere and healthy inter-state relations that would make it possible to fully exploit whatever potentials that existed.

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70. Nigeria has a railway link with Niger. Recently, Nigeria and Dahomey agreed to establish joint cement and sugar industries. And both projects are to be cited in Dahomey (see West Africa, 20 January, 1975).

5.5 THE ORGANISATION OF SENEGAL RIVER STATES (OERS)

(i) STRUCTURE AND ORGANISATION

The short-lived Organisation of Senegal River States (OERS), whose founders comprised Guinea, Mali, Mauritania and Senegal, was established by Convention in 1968. Its objectives were the maintenance of co-operative and peaceful relations among member states, and the furtherance of economic development by co-ordinated planning and increased mobility of goods and people. It was intended to be a step towards the eventual creation of a wider regional grouping of West African states. The OERS hoped to realise its objectives by a common approach towards trade, fiscal and monetary policies, by a harmonisation of educational and training systems, and by the conclusion of an agreement to assure "the right of establishment".[71]

Until its dissolution in November, 1971,[72] the OERS functioned on three levels: (i) The Conference of Heads of State and Government, (ii) the Council of Ministers, and (iii) the Organs of the Secretariat.

At the highest level the Heads of each Member State met in ordinary session once a year to make general policy decisions and to examine recommendations made to them by the Council of Ministers. They could also meet in extraordinary session as often as was necessary. Each of course, had one vote and all resolutions were passed unanimously. The Conference established and adopted its own by-laws, and approved those of the other bodies of the Organisation.[73]

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71. Statut de L'organisation des etats riverains du Senegal: amende (Dakar, 1970), articles 1-5. Hereinafter, this document is cited as "The convention Also see, R. Bornstein", "The Organisation of Senegal River States", in The Journal or Modern African Studies, 102 (1972), PP. 267-283

72. AFRICA RESEARCH BULLETIN. P. 2203B

73. Convention, articles 8 - 11.

The Council of Ministers operated on the intermediate level. It was composed of three ministers or plenipotentiaries from each member state. They normally met twice a year, but could also meet by request in extraordinary session. Essentially, the Council of Ministers was an institution of conception, execution, and control. It prepared and proposed policy measures, and was responsible to the Heads of State. It too made decisions upon the unanimous vote of its members.[74]

The OERS was managed on the day-to-day level by an executive Secretariat and three General Secretariats. These offices were located in Dakar, and were directed by an Executive Secretary who co-ordinated the operations of the three Secretaries General and oversaw the daily activities of the OERS.[75]

The Secretary General for the Development of the Senegal River Basin was charged with the promotion and co-ordination of studies and programmes for improvement, in conformance with the International Conventions of 26 July 1963 and 6 February 1964, relating to the development of the Senegal River Basin.[76] The Secretary General for Planning and Development was charged with preparing, presenting, and executing harmonised and co-odinated plans for the economic development and integration of the member states. The Secretary General for Educational, Social, and Cultural Affairs was charged with parallel responsibilities. The Executive Secretary and the Secretaries General were appointed to terms of three years by the Council of Ministers to whom they were responsible.[77]

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74. See R. Bornstein, op. cit., P. 268
75. Ibid.
76. Ibid.
77. Ibid.

Although not required by the Convention, it was the practice that each should come from a different member state.

The OERS budget was prepared by the Executive Secretary and the Secretaries General, but was adopted by the Council of Ministers. Financial contributions were determined by the Conference of Heads of State, upon proposal by the Council of Ministers.[78] The organisation had an Advisory Committee composed of deputies from the four National Assemblies, and representatives of various social and economic associations. But its functions were merely ancillary, and the committee had no actual power within the administrative hierarchy.[79]

(ii) HISTORY AND ACTIVITIES OF THE OERS

The history of the OERS is very short and chequered. Although it lasted for three years - 1968 to 1971 - only 1970 saw a period of intense co-operation.[80] As we shall see below, the objective - to bring about co-ordinated economic development by sub-regional co-operation - foundered in the face of political odds. The economic activities of the OERS were limited almost exclusively to the execution of feasibility studies for long-term development. Indeed, as of Mid - 1971, there were no major substantive economic projects in operation.[81]

Consequently, the substantive economic projects of the OERS remained at the feasibility-study stages and were never implemented. Some of the more important planned projects may be briefly discussed here for interest sake:

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78. The 1970-71 budget totalled 76 CFAF million (US $276.000) (See Ibid. P. 269)
79. Ibid.
80. Ibid PP.269-70. It may be that the OERS was over-ambitious in its aspirations hence its limited achievements. Although the OERS was the offspring of the Inter-State Committee for the Senegal River Basin, founded in 1963, the former had wider aims than the latter.
81. Ibid. P.269

(a) Development of the Senegal River Basin

Because of their geographical position, the former OERS members have always been faced with great agricultural problems which have meant that none of them can produce enough food for their peoples within their national borders. Thus the construction of a dam at Manatali in Mali (and possibly, another at the delta of Senegal River)[82] to irrigate the arid formlands of the member countries was considered to be an important step towards the solution of the area's agricultural problems. By March, 1971, the result of studies commissioned by the OERS and executed primarily by UN experts covering all aspects of the project had shown that the project would cost a minimum of $100 million, and take at least six years to complete once work is begun.[83] However, by the time the OERS ceased to exist no single organisation or country had expressed serious interest in financing the dam.[84]

(b) Monetary Policy

As discussed earlier, Mauritania and Senegal are both members of the UMOA and the BCEAO; whilst Mali has a separate arrangement with France which has enabled it to regain a position in the franc zone.[85] But the position of Guinea is quite different. It issues its own national currency which is non-convertible. Although nominally pegged at the value of the CFA franc before the 1969 devaluation, the Guinean franc is considered to be one of

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82. Report de la 'Table ronde' sur les perspectives de development integre du bassin du fleuve Senegal (Dakar, 1971), p.3

83. For details see R. Bornstein, op. cit. pp.273-75. Apart from the provision of controlled irrigation, the project, it it were implemented, would contribute to transport improvement as well as provide additional power resources for industrial development in the area.

84. Ibid.

85. See Ibid. p.277. The final step, Mali's re-entry into UMOA and BCEAO, is anticipated in the near future, perhaps by the end of 1972.

the weakest currencies in Africa.[86] Thus, during the life of the OERS, the currencies of all its members were not freely convertible into each other.

In recognition of this problem for trade and payments, it has been hoped that a system of inter-state payments within OERS would be worked out. Article 3 of the Convention,[87] clearly states that "The Government of the Member States of the OERS pledge, in the absence of a common monetary zone and free convertibility of their currencies, to facilitate inter-state payments in order to develop trade among Member States". Undoubtedly, Mali and Guinea, particularly the latter, would have greatly benefited from the implementation of such a pledge. However, the implementation of this pledge eluded the organisation. Given the instability of the Malian[88] and Guinean francs and the large French influence in CFA monetary policy, the establishment of a monetary union or zone of free convertibility within the OERS proved a very difficult task. Besides, the level of inter-OERS trade (see Table 5.5) is very low; hence the effect of such a monetary arrangement, at least in the short-run, would be exceedingly marginal. Perhaps, in the long run, things might have changed but time was not on the side of the OERS. Eventually, the organisation made no substantial progress in the field of monetary integration.

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86. The current black market value of the Guinean franc is roughly 1/5 of the CFA franc. Illegal currency transactions often give a crude indication of the real value of the currencies involved. See I. Diallo, Enquete sur L'immigration des guineans a 'Dakar (United Nations Institute for Economic Deve. & Planning, Dakar, 1971).
87. The Convention.
88. In 1967 the Malian franc was devalued to 50% of the CFA franc, with which it had formally been nominally at par. In 1969 she devalued her currency once again when the French CFA francs were develued by 12.5% (See Bornstein, Op. cit. p. 276).

TABLE 5.5

MALI AND SENEGAL: TRADE STATISTICS, 1967-69[1] (US $000)

	1967	1968	1969
		MALI: EXPORTS	
Total	8,248	10,733	17,310
Guinea	14	-	85
Mauritania	96	108	76
Senegal	2,641	1,653	823
Total OERS	2,751		984
		MALI: IMPORTS	
Total	25,853	34,298	38,912
Guinea	17	25	55
Mauritania	92	122	153
Senegal	1,052	2,466	3,262
Total OERS	1,161	2,613	3,470
		SENEGAL: EXPORTS	
Total	137,286	151,384	123,696
Mali	92	1,908	4,066
Mauritania	1,450	1,674	1,866
Guinea	236	216	516
Total OERS	1,778	3,798	6,448
		SENEGAL: IMPORTS	
Total	157,558	180,990	198,666
Mali	692	384	617
Mauritania	34	118	33
Guinea	4	151	179
Total OERS	720	653	829

1. Complete statistics are not readily available for Guinea and Mauritania, but their OERS trade figures may, to some extent, be gathered from this table. Imports are calculated at c.i.f. and exports at f.o.b.

SOURCE: Statistical Office of the European Community, Associated Foreign Trade Yearbook (Brussels), 1967-69 cited in R. Bernstein, op. cit).

(c) Industrial Development

As noted already, it was the goal of all the OERS countries to achieve greater industrial development. To this end, the Ministers of Planning and Industry, in order to overcome the narrow base for growth within each country, decided in June 1970 to co-ordinate their plans in the industrial sector.[89] Since they wished also to avoid unnecessary competition of similar products, they adopted a resolution calling for integrated and complementary development, as follows (Table 5.6):

TABLE 5.6

Country	:	INDUSTRY
Guinea	:	Paper, Tyres, Aluminium, Chemical electrolysis from marine salts.
Mali	:	Metalworks, Nitrates, Sugar refinery, flour mill, alumina.
Mauritania	:	Metalworks, Copper, Cement, Plasterworks.
Senegal	:	Petrochemicals, Pharmaceuticals, Chemical electrolysis from marine salts, Polymers.

Source: R. Bornstein, Ibid.

The Secretary General for Planning and Development called for the "complete denationalisation of these industries, whatever their geographical locations", and further suggested that measures be taken to provide for the following:

- Free circulation and consumption priority within the sub-region for goods produced by these industries.
- Effective protection of these products from foreign competitors.
- Reinvestment of these profits in OERS-integrated industrial projects, their distribution in equal shares to the Member States.

89. See R. Bornstein, Ibid, p. 278

- Common management of these industries by responsible nationals appointed by the Council of Ministers.[90]

Attempts were made to translate these proposals into action. In December 1970 the OERS concluded an agreement with the UN Industrial Development Organisation (UNIDO) to promote and accelerate integrated economic development, with special reference to the complementary proposals (see above) made by the four Ministers of Planning and Industry.[91] But integrated intra-zonal development required time to be accomplished. The political differences of the OERS members reinforced by the diversity of national economic policies and problems acted as a brake on any meaningful progress towards co-ordinated intra-area industrial development.

(d) Livestock and Animal Programmes

The OERS countries possessed great potential for the development of meat-processing and training industries (see Table 5.7). In 1968, an Inter-State Commission for Livestock and Animal Production was formed to co-ordinate the efforts of the four nations in evolving more efficient management, and among the questions studied were breeding techniques, feeding systems, marketing methods, disease prevention, applied research, and personnel training.[92] The Council of Ministers later approved a recommendation for common legislation to combat animal disease which, if enacted by the National Assemblie would have been the first co-ordinated effort to enact harmonised ligislation for the grouping.

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90. Bornstein, Ibid, P.279
91. However, this did not commit UNIDO to specific financial support and technical assistance outside its normal practices and procedures (see Ibid)
92. Ibid. P. 280. Also see Reunion de la Commission inter-Detats de l'e levage et des production animales (Conakry, 1970).

TABLE 5.7

OERS Member States: Estimated Animal Population 1969-70

Country	Bovine	Ovine	Equine	Asinine	Camel
Guinea	1,450,256	605,559	51	759	-
Mali	4,063,900	7,813,900	603,290	203,011	77,700
Mauritania	1,800,000	6,000,000	15,000	150,000	700,000
Senegal	2,525,000	2,520,000	191,000	172,000	8,000
Total	9,779,156	16,938,459	809,341	525,770	785,700

Source: R. Bernstein, Op.cit.

Before the disintegration of the OERS some measure of success had been achieved in the livestock sector. A bilateral Mali-USAID poultry project was expanded to the sub-regional level. Similar projects involving the construction of hatcheries and the introduction of modern breeding techniques were being built and were expected to be operational by the end of 1971.[93]

Aside from the sectors discussed above, the OERS Secretariat developed numerous other proposals in educational, cultural and social fields for co-operation. But, like others, these projects were very ambitious; and neither time nor a conducive spirit of harmony existed long enough to see them materialise.

93. R. Bernstein, Ibid.

(iii) POLITICAL DIMENSION AND INTER-STATE RELATIONS

The familiar but debatable maxim that political co-operation must precede regional economic development seems to have been vindicated in the precarious existence of the OERS. Its truncated life was spotted with recurrent political disputes which eventually sounded its death knell. Insofar as these political disputes affected and/or impeded the growth and progress of the OERS, three phases in the crises can be distinguished; The period of non-operation, 1968-69; the period of intense co-operation, 1970; and the road to disintegration, 1971.

Shortly after the Convention was signed at Labé in Guinea on 24 March 1968, the Organisation was confronted by its first political crisis.[94] On November 19th, 1968 the Socialist Government of Mali and its President, Modibo Keita, were overthrown in a military coup d'etat which installed Lieutenant Moussa Traore as the new Head of State.[95] Although military coups had become a common feature in post-independence Africa, this was the first (and, to date, only) coup experienced by the four countries under discussion. It therefore had profound psychological and political effects on the other OERS member governments. The fall of the Keita regine was particularly of special concern to Sekou Toure of Guinea, who had previously (in 1966) lost another close socialist ally when Dr. Kwame Nkrumah of Ghana was deposed. Having lost his most trusted comrade and finding himself in a "political wilderness", Sekou Toure tactically but tacitly withdrew his support for the

94. Bornstein, Ibid, p. 270

95. Africa Research Bulletin. p. 1332A

OERS - sub-stituting verbal rhetoric and political shibboleth for positive action. The Guinean policy of non-co-operation effectively paralysed the new organisation for the rest of 1968 and all of 1969.[96] Thus, in practical terms, very little, if any, was achieved by the OERS during this period, essentially because under the Convention, as noted above, all major policy decisions of the OERS must be taken on the unanimous vote of all the four Heads of State but all four never met between November 1968 and end of 1969.[97]

The second phase in the OERS inter-member relations was marked by a determined effort to resuscitate the organisation. Through a vigorous diplomatic campaign on the part of other members, spearheaded by Mauritanian President, Ould Daddah, the four Heads of State met in the Guinean capital of Conakry on 3 February 1970, and the convention was reaffirmed and amended.[98] It was thought that after the conference members would forget their political differences and that the organisation was on a new era of harmony and progress. Indeed, there followed a proliferation of specialised meetings to draw up OERS programmes in a wide range of fields (see above). All four countries regularly reaffirmed their commitment to the organisation beneath disguised political bickering (this time, between Mauritania and Senegal). However, this spell of intense activity did not last very long. The invasion of Conakry on 22 November 1970, by a small outside force under Portuguese

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96. Ibid See also R. Bornstein, Op. cit. p. 270

97. African Research Bulletin, P. 1583C

98. Ibid. This was the first meeting of all four Heads of State since the signing of the convention in 1968.

officers,[99] signalled its end. Although the Council of Ministers, which met in extraordinary session a few days after the attack, unanimously deplored the "barbarous aggression",[100] the solidarity which the incident generated quickly proved ephemeral.

The invasion and its aftermath having halted the phase of intense co-operation, precipitated the phase of disintegration. Several weeks after the invasion, Guinea accused Senegal of massing troops for the purpose of launching a new attack. This was strongly denied by Senghor's Government but the allegation created a serious political rift between the two nations. Sekou Toure did not attend the Conference of Heads of State held in Bamako, the capital of Mali, on 18 January 1971. Not surprisingly, the Conference was a flop since no decision could be taken on the numerous projects drawn up in 1970 and no plan could be charted for the future. Until Senegal resigned, presumably out of frustration, from the OERS on 30 November, 1971, no durable detente existed between the two members.[101]

Realising that the OERS in its form at the time was no longer an effective body, a Ministerial Conference of the Organisation was called. It took place in Nouakchott (Mauritania) on 29 November 1971, again without Guinean representatives. It was at this two-day Conference that Senegal resigned. The remnants merely formalised the death of the organisation when they satisfied themselves "that the OERS no longer answers to the needs it was founded to satisfy"[102] In March 1972 the Heads of State of Mali, Mauritania and Senegal formally signed an agreement winding up the OERS.[103]

99. A UN investigation has confirmed that this force originated from the neighbouring Portuguese colony of Guinea (Bissau). Although the invading force, which was beaten back, included some Guinean exiles, the UN has blamed Portugal for the ill-fated invasion (See Europa, op. cit. p. 373)
100. See Le Soleil (Dakar), 25 November, 1970
101. Ibid. It is doubtful whether Guinea would join the new organisation since Sekou Toure has declared that he preferred security to foreign currency (see Ibid, P. 2320B).
102. Ibid, P. 2293
103 Ibid.

(iv) NEW ORGANISATION CREATED:
ORGANISATION FOR THE DEVELOPMENT OF THE SENEGAL RIVER (OMVS)

To salvage whatever that could be salvaged from the defunct OERS, a new organisation for the Development of the Senegal River (OMVS) was established in Nouakchott on March 11, 1972 after discussions by the Heads of State of the founder members (Mali, Mauritania and Senegal). The Organisation is "open to all states through which the river flows provided they accept the spirit and letter of the Convention".[104]

In many respects, the orientation and structures of the new organisation are more modest and depoliticised. Having learnt from their past experience, the OMVS founders opted for a less ambitious goal. Though calling for the co-ordination of activity of its members in almost every possible field, the OMVS "only fixes one definite economic objective: the planning and development of the Senegal river".[105]

The structures of the OMVS are lighter than those of the OERS. The General Secretatiat is the key structure but it is capped by a ministerial council which has more of a technical than political influence, and inherits most of the powers of the former Heads of State Conference, which had to meet obligatorily every year. In future, the member Heads of State will only meet when it is felt necessary.[106]

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104. Ibid, It is doubtful whether Guinea would join the new organisation since Sekou Toure has declared that he preferred security to foreign currency (see Ibid, P. 2320B).

105. Ibid, p. 2293

106. Ibid.

The seat of the OMVS is in Dakar and its first President, for a two-year term, is President Ould Daddah of Mauritania. The President of the Ministerial Council is the Malian Minister of Industrial Development and Public Works, M. Robert N'Daw whilst the Secretary General is M. Mohamed Ould Amar of Mauritania.[107] Desirous to ensure its effectiveness, the new body has a strong legal foundation since the new convention determining the statute of the Senegal river (which has been declared an international waterway) and its tributaries, cannot be denounced by its trustees for the next ten years.[108] Thus, it looks as if the OMVS has got the proper orientation to get off to a good start.

(v) CONCLUSION

The OERS - whatever its aims - achieved very little. It ought and could have done better but the framework of political and ideological understanding between its member states was very tenuous to bear the strains of international co-operation. In the end, it died a victim of politics rather than economics. Its failure is a further lesson for the future of economic integration in West Africa. Although a new organisation has been set up in place of the OERS and special arrangements made to ensure the success of the OMVS, no guarantee at this stage can be offered regarding the success of the OMVS.[109] Ultimate success must reside in a workable machinery for co-operation, and more importantly in the existence of solid political detente among members of the grouping.

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107. Ibid.

108. Ibid.

109. Indeed, secret talks are reportedly being held to defuse a potentially dangerous crisis threatening to damage the OMVS. Senegal and Mauritania are both claiming Todd Island, a small strip of land in the Senegal river on Senegal's northern border. Except for its lucrative cattle trade the island is of little importance but the future of the OMVS may well depend on how the crisis is resolved (see West Africa, 9 June, 1975).

5.6 THE SENEGAMBIAN CASE

(i) THE RATIONALE OF ECONOMIC INTEGRATION BETWEEN SENEGAL AND GAMBIA

So far we have been discussing various forms of economic co-operation between the former AOF countries. This section briefly discusses one of the earliest attempts to bridge the co-operation gap between the anglophone and francophone states of West Africa.

The anomalous geographical position of Gambia reflects colonial policy in West Africa which we have discussed earlier.[110] Completely encompassed by Senegal except on its seaward margin, Gambia froms an irrational intrusion into the much larger country of Senegal and largely isolates the southern region of Casamance from the rest of Senegal (see map). Because of this strange geographical position of Gambia, some form of integration with Senegal has often been suggested to be the natural destiny of the Gambia.[111]

Following the Senegalese independence in 1960 and the prospect of early independence for Gambia, the urge for closer relationship between the two countries gathered force.

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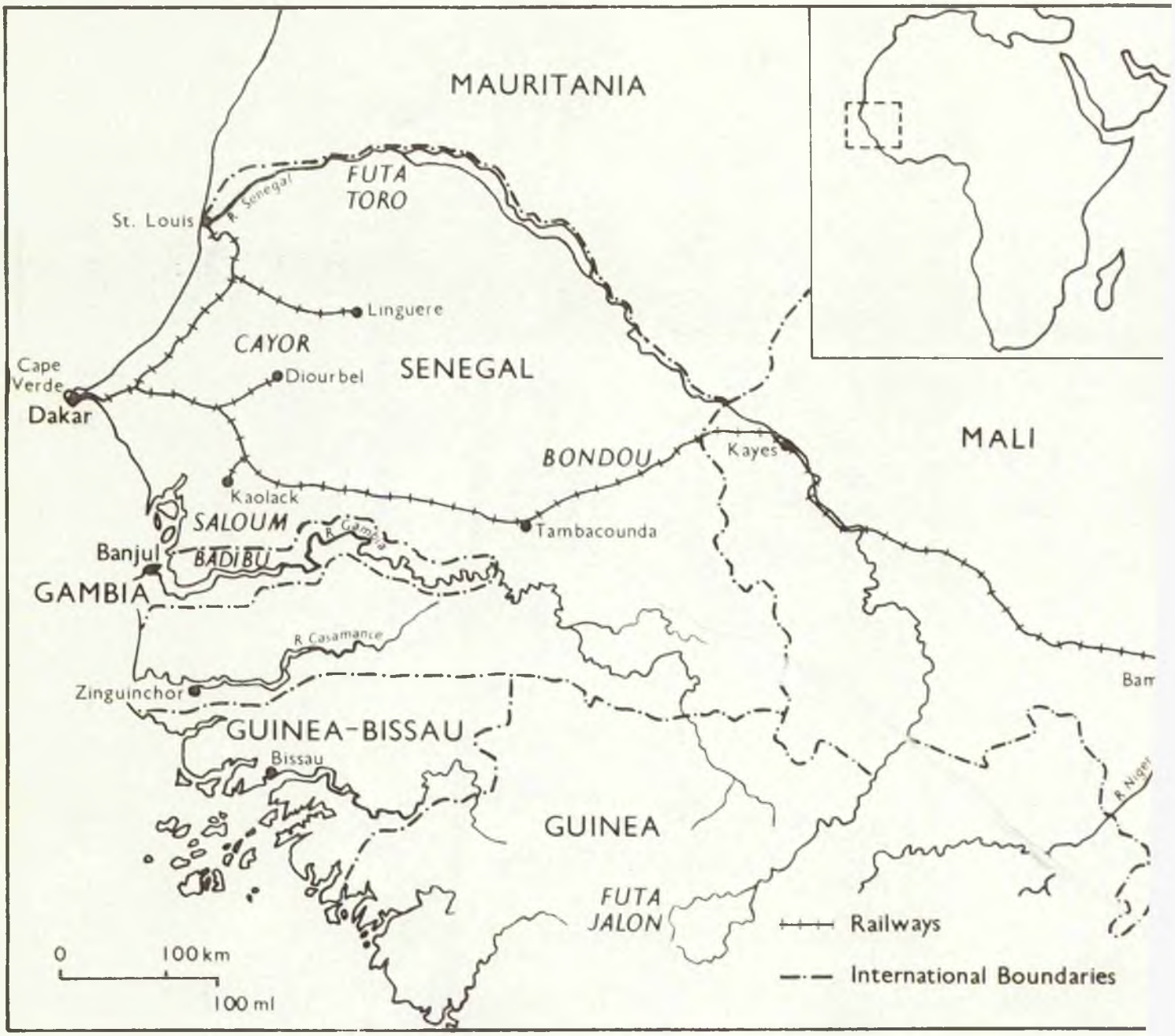
110. See Chapter one, Ethnically the people of Gambia and Senegal are the same. Indeed, for a brief period, between 1765 and 1783, much of what are to-day Gambia and Senegal formed a single British Colony of Senegambia. That they are too separate countries now is explicable mainly in the context of colonial rivalries between the European colonisers (see also P. Robson in A. Hazlewood (ed), op. cit. p. 115).

111. Even during the colonial rule several abortive British and French proposals, which envisaged the exchange of some other french colony for Gambia so as to permit her incorporation into Senegal, were put forward. But they were all doomed to blatant failure due to differences between the two colonial powers (see J.D. Hargreaves, Op. cit. PP. 145-95).

Map 5.7A

The Region of Senegambia



Source: Reprinted from A. Hazlewood (ed.), op. cit, P. 116

The case for the Senegambian integration centred on three main considerations.[112] First, there was doubt as to whether Gambia by herself is economically viable. This fear is by no means unjustified. For, as the summary data in Table 2:1 shows, Gambia is a tiny poor country by any standards. At present Britain provides more than 60% of Gambia's development budget finance and this financial dependence on the U.K. for development expenditure is likely to continue.[113]

Second, as an enclave within a country of twenty times its own area, the Gambia is an incovenience to Senegal, both because it divides the latter physically and because it is a smuggling base. It was estimated that around 1960 smuggling through Gambia into Senegal accounted for something of the order of 25% of Gambia's total exports of domestic produce.[114] Although the amount of goods so smuggled is very small in relation to the imports of Senegal - less than 1% - the practice, which has become Gambia's economic life-blood, shows little signs of declining. In fact, far from being stamped out, smuggling is assuming a new dimension. "Transitors go to Senegal, groundnuts come to

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112. See Hazlewood (ed), op.cit., PP. 115-128. This article provides a well-informed discussion on the "Problems of Integration between Senegal and Gambia" and this section (5.6) draws heavily on it. Also see A. Hughes, "Senegambia Revisited" in Senegambia, Proceedings of a colloquium at the University of Aberdeen, 1974, PP. 139-170.

113. Of the £5 million required for the 1967-71 development programme £3.2 million were provided as an interest-free British Loan, and in the last three years 90% of development expenditure had been covered from British sources (see Europa Publiactions (1971), op. cit. p.333). Britain is also committed to meeting some 50% of the outgoings of the Third Development Programme, 1971/72 to 1973/74. But as we shall show later British aid has been redirected away from the recurrent into Development Budget (A. Hughes, Op. cit.)

114 N.G. Plessz, Problems and Prospects of Economic Integration in West Africa, McGill University Press, 1968, P. 62.

Gambia, both ways the Gambia makes money"[115] because of Gambians' freer access than the Senegalese to the world market. As the Senegalese Finance Minister, Jean Collin recently remarked: "If the Gambians had all the transistors they imported there would be 212 transistors for every 1,000 Gambians compared with 5 for every 1,000 Senegalese".[116] Consequently, illegal border trade has become a constant, if not a permanent, source of irritation and fricition between both countries for long.

Besides, the present economic frontiers are disadvanteous to both countries in some other respects. For Senegal they mean a partial insolation of the southern province of Casemance and inability fully to use the Gambia river. For Gambia, on the other hand, it is argued that she cannot exploit her main natural asset-the river basin - and that Banjul (until April 1973 known as Bathurst) is deprived of the opportunity to serve as the port for a large economic area to which it is properly suited. Briefly put, it is held that adequate use of the economic resources of Gambia and Senegal requires close co-operation between them, if only to overcome the artificiality of the existing political and economic frontiers.

The third factor is political. There has been some fear in Senegal that Gambia could become a staging base for the operations of banned political parties or for subversion from outside.[117] For her part, Gambia, which lacks an effective army, recognises its extreme vulnerability from a military standpoint - in the event of an attack.

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115. Jeune Afrique: Affica 1971, op. cit p. 259
116. Ibid.
117. Hazlewood (ed), op. cit. P. 117

It is against this sombre background of fears and mutual suspicion that talks on the possibility of closer economic co-operation has often been held since the early sixties. An Inter-Ministerial Committee was set up in 1961 by the two countries to discuss matters of joint interest among them.[118] This Committee, which is still maintained, has not achieved a real thaw in the field of economic integration between the two countries. Nonetheless, it initiated discussions on the subject which invariably led to the commissioning from the United Nations of a report to consider the various possibilities of association between the two states.

(ii) THE UNITED NATIONS REPORT[119]

During the later part of 1963, a UN Technical Assistance Mission was sent to Gambia and Senegal at the request of their respective governments to investigate the possibilities of a closer association between these countries. The UN report, which was submitted early in 1964, dealt with political, economic, and fiscal aspects of association. It was followed by a supplementary report by FAO on co-ordinated agricultural development in the Gambia river basin.[120]

On the political front, the UN report suggested three alternative forms which association between Gambia and Senegal might take. The first was the full integration of Gambia as the eighth Senegalese or Senegambian province. But this option was ruled out as unacceptable to Gambia and not to be entertained "until a long period of friendly and fruitful collaboration between the two countries has elapsed".[121]

118. Ibid., and S. Sy in Senegambia, Op. cit. P. 127.
119. UN, Department of Economics & Social Affairs, Report on the Alternatives of Association between the Gambia and Senegal, March 1964. For commentaries on the report, see N.G. Plessz, op. cit., pp. 120-128. The latter offers a good analysis of the report.
120. Ibid.
121. Ibid.

The second alternative envisaged the formation of a loose Senegambian federation. The report recommended a federal government with powers for the initial period limited to defence and overseas representation and with complete autonomy in other respects for the federated states. Progress after the initial period would depend on the wishes of both states. Evidently, the authors of the report favoured this alternative but they entertained reservations with respect to its acceptability by Gambia.[122]

Assuming that the first two alternatives would be considered premature and/or unacceptable, the report advocated the establishment of a Sengambian entente which would involve neither the creation of a new state nor the impairment of the sovereignty of each state. The establishment of a mere entente - possibly in form of a treaty relationship - was seen as a practical step and prelude to eventual closer integration.

In the economic sphere, which is of particular interest to us here, total economic integration was not seriously contemplated in the report since this would require a considerable degree of political unity which had been ruled out as unfeasible. Thus, the form of economic integration advocated in the report was customs union, embracing fiscal harmonization, and ultimately monetary integration, with Gambia making the adjustments.[123] But the immediate practical problems of a sudden economic integration, such as the administrative difficulties arising from the introduction of the complicated regulatory system of Senegal into Gambia overnight and the effects of such changes on cost of living, were clearly recognised.

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122. Ibid. Also see Sy in Op. cit., P. 128

123. Ibid., P. 121

This led the UN report to endorse a gradual economic association of the two countries beginning first with areas in which agreement is feasible and easy to reach and gradually building up to a more advanced form of association. Probably, because it was thought that a developing economic association would help promote a gradual rapprochement in the political sphere as well.

What eventually emerged as the practiable form of economic co-operation between the two countries in the transitional phase was a free-trade area with import restrictions in Gambia.[124] Under this customs frontiers would be abolished and Gambia given an overall import quota, based on recent import levels, to which reduced rates of duty would apply, corresponding initially to the rates hitherto levied. Provisions would also be made to curb smuggling.

Concerning monetary matters, the report took the view that while ultimately the currencies of Senegal and Gambia would have to be united, this was not considered urgent. Partly because Senegal, as discussed already, is a member of UMOA and therefore not autonomous in the monetary field whilst Gambia belonged to the West African Currency Board, now defunct, at the time. Even so, the report did not deem the long-term technical problems of monetary unification insuperable.

However, as we shall soon see, these proposals failed to satisfy the governments of Senegal and Gambia and very little has come of them ever since.

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124. Ibid., P. 122

(iii) THE BENEFITS OF ECONOMIC INTEGRATION IN SENEGAMBIA

In theory, there are many economic gains to be derived from the integration of Senegal and Gambia. To begin with, the Gambia river could be used to transport the Senegal groundnut crop down the coast for export. Although the use of the river does not necessarily require the vertical integration of the economies of the two countries. Many other African countries, especially the land-locked ones, use the transport system of their coastal neighbours without formal tariff unification.

Another important case for closer association concerns the integrated development of the Gambia river basin in relation to irrigation and hydrological development. The FAO report, mentioned above, discussed the benefits that will accrue from the construction of a storage dam in the upper catchment area of the Gambia river, with particular reference to irrigation facilities and power supply. Again, there is no prima facie case to presume that the development of the Gambia water resources can only be undertaken within the framework of a customs union. It could equally be undertaken by an inter-governmental agency. In fact, experience in the region bears eloquent testimony to this view. The Inter-State Committee for the Senegal River Basin, founded in 1963, and later replaced by the OERS - all discussed already - had similar functions.

However, the more important consideration insofar as the Gambia river projects are concerned relates to their economic feasibility. From a technical point of view they may appear relatively practicable but, given the limited market base in the area and the difficulty of financing such projects, their economic feasibility may be called into question.

Thus, it appears that the FAO report, which proposed these projects, assumed that a customs union would be a good thing for all. But, if experience is any guide, whether a small country like Gambia would really benefit from an integration scheme in terms of additional incomes will depend on the intra-union "backwash and spillover effects".[125] On balance, these can be unfavourable for a very tiny country joining a larger area. Unless, of course, an adequate system of compensation is built into the integration agreement to reverse such a trend. For example, under the transitional arrangement proposed by the UN report, it would be necessary to introduce rationing in Gambia to control prices which would in turn mean increased cost of administration on Gambia, not to mention the revenue effects of tariff disarmament. These costs may not be easily offset by the gains accruing to a "junior" partner in a laissez faire integration scheme.

Commenting on the recommendations of the UN report, Professor Robson concludes that "a transitional free-trade area as the prelude to a simple customs union offers Gambia no obvious advantages and some evident immediate disadvantages in the form of higher administrative costs. It would not be sensible to enter such an arrangement without some more equitable distribution of the direct costs and benefits of the change-over to the two countries . . ."[126] He suggested in place of the UN recommendation the establishment of a full free-trade area which would permit each country to maintain its own tariff or, alternatively, the institution of a free-trade area in local agricultural

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125. For a discussion on these effects see G. Myrdal, Economic Theory and Underdeveloped Regions. Op. cit., PP.23-49. Also see A.O. Hirschman, op. cit. PP.187-90.

126. A. Hazelwood (ed)., Op. cit., P. 126

produce only.[127] The former alternative, unfortunately, fails to allow for the fight against smuggling and Robson admits this, retorting that "even the United Nations proposal involves accepting the continuance of smuggling for an indefinite period".[128] This weakness notwithstanding, it is contended that either of the two alternative suggestions would offer a reasonable expectation of long-term advantage and no immediate disadvantages to both countries. While realising that a free-trade area may be regarded as a second best solution to a customs union, it is clearly underlined that realism demands no closer economic integration between the two countries at this point in time.[129]

When viewed from a detached angle, it is difficult to escape this verdict - though the search for a more satisfactory arrangement continues as discussed below.

(iv) RECENT PROGRESS TOWARDS INTEGRATION

More than ten years after the UN report, Senegal and Gambia are still not very close to union; but some progress has been made, especially in the Socio-cultural field.

The report was transmitted to the governments in March, 1964 and talks were held between the two governments in Dakar in May to examine the alternative proposals. At this meeting Gambia came up with proposals on the political — analogous to the third alternative in the UN report — which called for a confederal structure in which would be vested responsibility for defence,

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127. Ibid. PP. 125-26
128. Ibid.
129. Ibid.

foreign affairs, and overseas representation.[130] This was admittedly unacceptable to Senegal, which countered with proposals envisaging the eventual political integration of Gambia with Senegal.[131] But this, too, was not acceptable to Gambia. In the impasse that ensued, the two countries settled on a treaty relationship. They agreed to enter into treaty agreements on foreign affairs and defence only.[132]

The defence agreement, which was worked out, provides for mutual assistance in the face of any form of external threat, the establishment of a joint Senegal-Gambia Defence Committee with a permanent Secretariat, and Senegalese assistance in training any Gambian military or paramilitary units. As for the foreign-policy agreement, it provides for an exchange of resident ministers, representation of Gambia by Senegal as directed by Gambia, and a Joint Committee on Foreign Affairs with a Secretariat which will meet once every three months to harmonize the approaches of the parties to all matters of importance in foreign affairs.[133] Whilst providing a useful framework for co-operation, these agreements do not in any significant sense impair the sovereignty of either country.

The Gambia's rejection of the recommendations for a transitional free-trade area with quotas seems to be based on the fear whether integration would offer sufficiently increased trade and economic activity in Gambia to accommodate the consequent extra administration costs and loss of revenue

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130. Ibid. P. 126
131. Ibid.
132. Ibid.
133. Ibid.

through tariff cuts. For Senegal any acceptable form of economic association that would not lead ultimately to full integration of Gambia seems out of the question.

Thus the 1964 Agreements were not used as stepping-stones to closer relations; the two countries positively dragged their feet over implementing even such modest acts of co-operation.[134] The foreign policy agreements, for instance, have never really worked: the joint committee has elapsed; there is no joint representation overseas; and the two states pursue separate and sometimes contradictory policies. Similarly, little has come of the Defence agreements.[135]

In accordance with the UN report's recommendations, two governments signed, on 19 April, 1967, a treaty of association defining the bodies responsible for promoting and extending coordination and co-operation between the two countries in all fields.[136]

The treaty provides for the setting up of three bodies: the Conference of Heads of State, the inter-state Ministerial Committee and the permanent Senegambian Secretariat. The conference of Heads of State meets, in principle, once a year, in Banjul and in Dakar alternately to define general guidelines and survey the stock and state of co-operation between the two countries.

Within the framework of the policy so defined, the inter-state Ministerial Committee's task is to study all measures to strengthen co-operation and

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134. See A. Hughes, Op. cit., PP. 149-50

135. A defence meeting was called in 1971 in order to implement the earlier promises but at the time of writing nothing has been done (see Ibid).

136. See Sy, Op. cit., PP. 128 - 129.

solidarity between the two countries and to submit them for approval to the two governments. The Committee meets at least once a year. In practice, it has met twice a year, alternately in The Gambia and in Senegal.[137]

The Ministerial Committee is assisted by a Secretariat whose headquarters would be at Banjul. The Secretariat is a permanent investigation, liaison and information body entrusted with the implementation of the decisions of the Ministerial Committee to which it is responsible.

Senegal has agreed to pay 75% of the cost of the Secretariat, out of its provisional budget of 31,360,000 CFA francs. The rest will come from Gambia. This was agreed at the second Conference of the Committee which took place on 29 January, 1968.[138]

When these institutions were set up, a series of agreements covering wider and wider fields were concluded. The permanent Secretariat endeavoured to implement such agreements and still continues to do so but there have been implementation difficulties.[139] On 10 June, 1967, the two governments signed a cultural agreement to develop as far as possible the relations between the two countries in the following fields: University, School, Science, Technical matters, sports and culture, in order to contribute to a better understanding of their respective cultures or of their activities in these fields.[140]

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137. Ibid.

138. C. Legum & Associate (eds.), Africa Contemporary Record, 1968-69, London, PP. 486 & 583.

139. The Secretariat itself was not set up until a year after it had been decided upon in the 1967 Treaty and the Gambians do not seem to have been consulted in the selection of its Senegalese director (See Hughes Op. cit. P. 150)

140. S. Sy, Op. cit, P. 129

Since 1968 the Secretariat has drawn up an Implementation Protocol to this end each year and certain cultural and social activities have been carved out within the framework of the Implementation Protocol to the cultural agreement. The Secretariat, working in close co-operation with those responsible for education, contributed to the setting up of an Advisory co-ordinating Council for Youths and Sports. Its achievements, which have been modest, include the building of a Senegalese School, containing 450 pupils more than 60% of whom are Gambians; organisation of sports; and the annual organization of youth caravans towards one country or the other.

Notwithstanding their importance, socio-cultural affairs represent only one aspect of the Senegambian co-operation. There is the more complex field of economy. The only project worth mentioning here is the development of the Gambia's river basin. The purpose of this project as indicted earlier is to make an hydrological assessment of the Gambia river with a view to developing this basin for hydroelectricity, shipping and irrigation. The study was initiated in 1970 with the aid of funds from the United Nations Development Programme (UNDP) and was expected to be completed by the middle of 1974.[141] Although the role of the Secretariat in directing this project has been notable, it is still a far cry from the optimistic forecasts of massive dams providing unlimited power and vast acres of irrigated land.

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141. Ibid. By the middle of May, 1975 this study has not been completed. The Senegalese Prime Minister, M. Abdou Diouf during his official visit to The Gambia on 19th April, 1975 expressed the determination of the two governments to conclude the study to enable them implement the related projects (see Africa Research Bulletin, April 15 - May 14, 1975, p. 3482).

The move towards closer co-operation between the two countries has been remarkably slow. Indeed, the associational relationship, which has characterised the position between them in the post - 1964 period, has undergone stress recently.

One important factor here has been a certain amount of disenchantment with integration on the part of the Gambia, accompanied by a period of coolness and distance from its putative federal partner. The reasons for this change of heart date from around 1969 and have led to permanent changes in Gambian thinking on ultimate union with Senegal.[142] The perennial 'smuggling' issue and the related border 'crisis' of 1969-71 confirmed Gambian fears that Senegal was bent on dominating her smaller neighbour and, although little hard evidence was offered to substantiate these fears, they have been sufficient to lead to departures in Gambian foreign policy.

There is also the fact that the Senegambian idea from the Gambian point of view has been more of a pragmatic response to a set of difficulties facing the colony-state in the early sixties than a self-negating idealistic commitment to the goals of continental unity. The prime impetus was unquestionably a concern for the economic viability of the colony following a British withdrawal together with its Grants-in-Aid. The anxiety and uncertainty created by this situation turned Gambian eyes towards Dakar for Senegal seemed to offer a way out and the latter seemed anxious to form a close political and economic union with its tiny neighbour.

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142. See A. Hughes, Op. cit., p. 150

However, in the very year of Gambian independence (18 February, 1965) the groundnut crops - the mainstay of the country's economy - increased both in size and value, and despite later fluctuations, this steady growth has been maintained. The Gambia was thus able to manage without a British Grants-in-Aid in 1966/67 and has had no recourse to it thereafter.[143] The emergence of this spirit of self-sustenance has had a dampening effect on the desire for rapid and close union with Senegal.

Furthermore, Gambia, as we noted earlier, has justifiable reservations about the immediate benefits of economic integration with Senegal. Given the Senegalese relatively more developed and export-oriented industrial sector, Gambians feel that the Senegalese would be the immediate beneficiaries of economic integration since this would mean the abolition of Gambia's cheap import policy and the subsequent ending of the clandestine trade with Senegal.

Meanwhile the associational relationship between the two countries continues at its undemanding level leaving The Gambia to run its affairs and to maintain its important ties with Britain and forge new and countervailing links with other West African States. Unless one of three things dramatically alters the status quo, the integration of the two countries seems remote in the foreseeable future. There could be a positive rethinking on either side; the groundnut crop might cease to prosper and external aid slashed; and Senegal might contemplate a military intervention in Gambia. Attitudes towards closer integration of The Gambia and Senegal could be changed by eithr of these but there are no good grounds to entertain any of these possibilities yet.

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143. Fear about the termination of British aid after independence turned-out to be unfounded. It was merely re-directed into the Development Budget (see footnote III).

5.7 ECONOMIC COMMUNITY OF WEST AFRICAN STATES (ECOWAS)

(i) BACKGROUND TO ECOWAS

In pursuance of its notion of unity through regional groupings, the United Nations Economic Commission for Africa (ECA) conducted researches in a selected number of West African Countries between the early and mid-sixties. The findings[144] of these studies suggest that:-

(a) there was considerable scope for increased inter-penetration of each country by goods that could be supplied competitively from the other countries;

(b) the Government should be assisted in making the necessary organisational and legal changes to facilitate this trade;

(c) enterprises identified to be potential exports to neighbouring countries should be assisted to organise their commercial contacts and exporting arrangements;

(d) a long-term programme of policies favourable to exports and import promotion with particular emphasis on training was required.

To discuss these and other issues related to economic co-operation in West Africa, a number of meetings were held under the auspices of ECA which culminated in the signing of articles of association for a West African Economic Community in Accra on 4th May, 1967.[145] The Signatories comprise Dahomey, Ghana, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo and Upper Volta. Gambia and Guinea did not sign.

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144. C. Legum & Associate (eds), Op. cit., P.C 448.
145. Africa Research Bulletin, Vol. IV. P. 731.

According to Article 1 the aims of the community will be:[146]

(i) To promote, through economic co-operation of member-states, a co-ordinated and equitable development of their economies, especially in agriculture, industry, transport and communications, trade and payments, manpower, energy, and natural resources;

(ii) To further the maximum possible interchange of goods and services between its member-states;

(iii) To contribute to the orderly expansion of trade between member-states and the rest of the world;

(iv) To contribute by all these efforts and endeavours to the economic development of the continent of Africa as a whole.

Other sections of the Treaty spelt out in minute details how a permanent community would be brought into being. It was to be the responsibility of an Interim Council of Ministers, the composition of which was also agreed upon.

It was decided to hold a summit in Monrovia in April, 1968, at which it was intended to formally set up the community but that summit was not particularly successful.[147] The absence of delegations from Ivory Coast, Togo, Niger and Dahomey, whose official reason for not attending was that the pace of the whole project was being rushed, and they needed more time to consider it,[148] downgraded the outcome of the conference. Consequently, although the Monrovia meeting produced a protocol (signed by nine of the fourteen; Sierra Leone was also absent because of coup) setting up the West African Economic Community,

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146. Ibid.

147. See West Africa, 7 July, 1972 (P. 849).

148. Ibid.

and made provisions for a further treaty-signing summit to be held in Ouagadougou,[149] the grouping was put on ice. And - except for occassional verbal declarations from a number of quarters in the region on how important it is to reactivate it - there it has remained.

The 1968 Treaty was to have been discussed at a Ministerial and then Heads of State meeting "before the end of 1969". But the meeting was repeatedly postponed and on October 16, the Late President Tubman of Liberia, who was then chairman of the Council, announced that the "French-speaking nations who were to attend the meeting had asked for postponement and that "certain elements" did not want the proposed West African economic grouping to work".[150] Thereafter, very little was heard of the grouping until towards the middle of 1972.

149. Ibid.

150. There is a feeling in some quarters that the French had reservations about the formation of a grouping they felt might be "Anglo-Saxon" dominated. And it is thought that French influence and/or pressure had something to do with the attitude of non-co-operation of the Francophones. Although conclusive evidence is hard to come by, some recent developments have strengthened the hands of those who share this view. During the Bamako conference of June 1972 - noted earlier - at which the Francophones established their exclusive CEAO, the French Ministry of Co-operation was conspicuously represented as well as the EEC Commission but, strangely enough, no Anglophone country was invited, even as an observer. But more revealing is a statement made by the late French President, George Pompidou during his visit to Niger early in 1972. On the effect of the British entry into the EEC on the African continent, he said, "It is only logical that Francophones, and Anglophone, should co-operate more fully" but that relations between Anglophones and Francophones should not be a "one way relationship; there must be a just equilibrium". This equilibrium could be achieved, according to the President, only if the Francophones "harmonise their efforts so as to counter-balance the heavy weight of Nigeria" (see Tamar K. Golan in West Africa, 7 July, 1972 (P. 866). Also see C. Legum and Associate (eds), Op. cit., P. c448. However, as we have shown in section 5.2, there has been a change of attitude on the part of the Francophone states in this direction.

(ii) THE TREATY

The birth of the Economic Community of West African States on 28 May, 1975 in Lagos marked the beginning of a new era in the history of economic co-operation in West Africa. Its birth came after eight years of action and inaction. The period from 1967 through March 1972 was characterised by hesitation, vacillation and "politics" whilst the last three years marked by series of meetings and difficult negotiations initiated in April 1972 by President Eyadema of Togo and General Gowon of Nigeria finally brought the community into existence. The two Heads of State revived the idea and supearheaded the successful campaign.

As we noted in section 5.2, both leaders had agreed to form the "nucleus" of a West African Economic Community which would embrace both anglophone and francophone countries. It was feared that the CEAO members would not join the wider regional grouping because of the "great francophone-anglophone divide"[151] in West Africa but surprisingly all embraced the ECOWAS. Indeed, ten Heads of States indlucing such influential francophone leaders as Felix Houphouet-Boigny of the Ivory Coast, Ould Daddah of Mauritania and Eyadema of Togo were present for the signing of new treaty in Lagos, confounding earlier expectations of a poor showing and raising hopes for the organisation know as Economic Community of West African States to the francophones.

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151. West Africa, 7 July, 1972. This has been discussed earlier (see Chapters 2 & 5 (2)).

The ambitious 65-clause ECOWAS Treaty[152] is expected to standardise tariffs and trade procedures among the 15-founder members. These are: Dahomey, The Gambia, Ghana, Guinea, Guinea-Bissau (newly independent), Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo and Upper Volta.

Specifically, the aim of the community is to promote co-operation and development in all fields of economic activity particularly in the fields of industry, transport, telecommunications, energy, agriculture, natural resources, commerce, monetary and financial questions and in social and cultural matters for the purpose of raising the standard of living of its peoples, of increasing and maintaining economic stability, of fostering closer relations among its members and of contributing to the progress and development of the African continent (Article 2 (i)). To this end the Community will by stages (emphasis mine) ensure among other things: (i) the elimination as between the member states of customs duties and other charges of equivalent effect in respect of the importation and exportation of goods; (ii) the abolition of quantitative and administrative restrictions on trade among the member states; (iii) the establishment of a common external tariff and a common commercial policy towards third countries; (iv) the abolition of restrictions on the free movement of persons, services and capital; (v) the harmonisation of agricultural, industrial and economic policies; (vi) the implementation of schemes for the joint development of transport, communication, energy and other infrastructural facilities; and (vii) the establishment of a fund for co-operation, Compensation and Development.

152. Treaty of the Economic Community of West African States, Lagos May 1975 reprinted in the NEW NIGERIAN, 3 June, 1975. The Treaty is divided into 14 chapters and contains 65 clauses.

Article 4 of the Treaty establishes five institutions to run the ECOWAS. They comprise:

(a) The Authority of Heads of State and Government;

(b) the Council of Ministers;

(c) the Executive Secretariat;

(d) the Tribunal of the Community;

(e) Technical and Specialised Commissions.

The Authority of Heads of State and Government is the principal governing institution of the Community. It will be responsible for, and have the general direction and control of the performance of the executive functions of the community, and its decisions will be binding on all institutions of the community. The Authority is to meet at least once a year and will determine its own prodedures and conduct of business.

Below the Authority of the Heads of State and Government is the Council of Ministers which will consist of two representatives of each member state. The responsibilities of the council of Ministers are: (i) to keep under review the functioning and the development of the community in accordance with the Treaty; (ii) to make recommendations to the Authority on matters of policy aimed at the efficient and harmonious functioning and development of the community; (iii) to give direction to all subordinate institutions of the community; and (iv) to exercise such other powers conferred on it and perform such other duties assigned to it by the Treaty. The decisions and directions of the Council of Ministers, which will meet twice a year with a provision for extra-ordinary meetings, will be binding on all subordinate institutions of the Community (Article 6).

The Executive Secretariat is the executive organ of the community. It is to be headed by an Executive Secretary who will be appointed by the Authority to serve in such office for a term of four years and be reappointable for another term of four years only. According to Article 8 of the Treaty, the Executive Secretary will be the chief executive officer of the community and he will be assisted by two Deputy Executive Secretaries who will be appointed by the Council of Ministers. There is also a provision for the appointment of a financial Controller and other officers in the Secretariat. The Executive Secretary is responsible for the day to day administration of the community and all its institutions.

Conscious of the complex problems which would arise in the process of harmonising the economies of 15 different countries which have different systems and are at relatively different levels of development, the Treaty envisages the establishment of the Tribunal of the Community (Article II). Its work is to ensure the observance of law and justice in the interpretation of the provisions of the Treaty and to settle disputes referred to it.

Also it is proposed to establish 4 Technical and specialised Commissions consisting of:

(a) the Trade, Customs, Immigration, Monetary and Payments Commission ;

(b) the Industry, Agriculture and Natural Resources Commission;

(c) the Transport, Telecommunications and Energy Commission;

(d) the Social and Cultural Affairs Commission.

Each commission is to consist of representatives designated one each by the member states. The function of each commission is to submit from time to time reports and recommendations relating to its own field of investigation through the Executive Secretary to the council of Ministers either on its own

initiative or upon the request of the Council of Ministers or the Executive Secretary. In addition the Treaty could impose other functions on each commission.

Other important provisions of the Treaty include: the appointment of an External Auditor of the Community to be responsible for the auditing of its account; the setting up of a Committee of West African Central Banks, consisting of the governors of the various central banks to oversee the system of payments within the grouping; and the establishment of the fund for co-operation, compensation and development as a mechanism for the equitable distribution of the benefits and costs of integration. The fund is to be financed from the contributions of members, income from community enterprises, external receipts, and subsidies and contributions from all other sources (Articles 10, 38 & 50).

Essentially, the ECOWAS Treaty is an ambitious but detailed document. Despite the temptation to rush things, the Treaty envisages the gradual achievement of a customs Union of West African states over a period of 15 years.[153] Article 62 states that the Treaty and the protocols which will be annexed to it will respectively enter into force provisionally upon the signature by Heads of State and Government and definitely upon ratification by seven signatory states. The Treaty does not however commit the signatories

153. Within a period of two years from the definitive entry into force of the Treaty, member states are to "freeze" their customs duties and other charges on trade. During the next eight years members will be required to progressively reduce and ultimately eliminate such duties whilst the existing differences in their external customs tariffs would be abolished according to a recommended schedule over the last 5 years (see Articles 13 and 14).

to political or even monetary union. It further binds them to taking measures which may in its own view conflict with the interests of a signatory state. Particularly interesting is the commitment to exchange industrial feasibility studies and information about their industrial experience as this would help to minimise the duplication of feasibility studies in the region.

(iii) PROBLEMS AND THE FUTURE

There are however problems to overcome. The provision to ensure that all states have a similar "industrial climate" to make industrial development smoother is admirable. Yet it is difficult to imagine how this can be easily achieved in the foreseeable future in a region displaying such economic diversities as West Africa, especially between the undisguised capitalist mode of Ivory Coast and the thorough-going socialist system of Guinea. To achieve this would require profound political and ideological changes.

Also the determination of the appropriate level of common external tariff might not be easy. In fixing the level, consideration must be given to the need to protect the community's industries and to compensate its members for the loss of revenue from the abolition of duties inside the community. It is desirable that the height of the common external tariff should not be so low as to negate the above considerations nor should it be so high to the point where the community becomes simply a high-cost area where inefficiency is protected and richly rewarded whilst the benefits of integration accrue to a few.

But the most immediate problem is one of definition. Article 62 (2) of the Treaty permits any West African State to join the community. But "West Africa" is not defined. President Senghor of Senegal is reported to have said

that he wanted all African states facing West to the Atlantic to be eligible.[154] Also Dr. Adedeji, Nigeria's former Commissioner for Economic Development, who has just taken up his new post as Executive Secretary of ECA in Addis Ababa, opined after the signing ceremony that "all other African States" were free to join.[155] Although there is nothing wrong with a continental customs union, the community Secretariat must know exactly what area it is dealing with if the officials are to get down to practical work. Besides the area of the 15-founder signatories looks like, and can be made into, an economic unit (Spanish Sahara is the only obviously desirable addition). If it were to spread southwards to Zaire and beyond or eastwards to Chad and the Sudan, it would become unmanageable -- though one does not rule out the development of economic ties with the community's neighbours.

Another issue relates to the standardisation of prices paid officially for agricultural exports. There seems to be no specific commitment to harmonise these prices and their disparities are a major cause of smuggling. This is a serious omission but it is hoped that under General Undertaking (Article 3) members must do something about it.

Perhaps, by far the biggest danger facing ECOWAS is the existence of other rival integration schemes in West Africa. Aware of this and desirous to accommodate them, the Treaty allows member states to belong to other economic groupings provided that such membership does not "derogate from the obligations of that member state under this Treaty" (Article 20 (3). But there are other problems. Obviously, such organizations, which appear to be

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154. See West Africa, 16 June, 1975.

155. Ibid.

"complementary" in nature, as the organisation for the Development of Senegal River or wider bodies like the ECA can only help to develop the new community. But the incorporation of the CEAO which is essentially a miniature ECOWAS of the francophones may be less easy. Although a spokesman for the ECOWAS in Lagos emphasized that there would be no conflict of interests between the two organisations,[156] it remains to be seen how this will be so. Since their long-term aims are basically the same, the region as a whole stands to gain, at least in the interest of economy and effective co-operation, if they could be merged. The sooner the over-all problems of the sub-region are taken into consideration, the sooner will factions give way to determined collective effort.

Furthermore, ECOWAS presents another glaring case of a partnership of unequal partners. Nigeria, one of the 15-founder members, has about 61% of the population of the area. Its GNP accounted for 49% of the sub-regional total in 1973; and it has the largest and most diversified industrial sector, at least in absolute terms. As already illustrated in chapter 3, the partnership of such unequal partners has often widened rather than narrowed the "economic gap" between members of a grouping. A satisfactory distributive system has to be devised to ensure that the fruits of integration are equitably distributed among the members, if the weaker ones are to stay in the community.

Finally, although the ECOWAS came into legal existence on 27 June, 1975 after it had been ratified by nine countries (i.e. Nigeria, Liberia, Togo, Ghana, Ivory Coast, Guinea, Upper Volta, Gambia and Dahomey in that order),[157] nothing else, can be said at this point in time about its future - except that it really

156. Ibid.
157. See New Nigerian, 27 June, 1975.

represents a milestone in the continuing search for effective co-operation in West Africa. But the success of the organisation depends on the course of future developments.

5.8 INTER-STETE FUNCTIONAL ORGANISATIONS

Aside from the more formal forms of economic integration discussed above, there exist some inter-state functional organisations. The more important ones which are discussed in broad general terms here - are the Mano River Union, the Chad Basin Commission and the Niger River Commission.[158] The functional organisations, unlike the other integration schemes, are generally specific and limited in their objectives, sometimes involving little or no integration in the field of fiscal, monetary and labour policies. As we show co-operation is often centred on a development project.

(i) MANO RIVER UNION

Liberia and Sierra Leone signed the Mano River declaration on 3rd October, 1973 thereby bringing into existence the Mano River Union of economic co-operation between them.[159] It provides for the gradual establishment of a full customs union in two stages between the two neighbouring countries by 1977 and of a permanent joint commission charged with implementing the agreement. The first phase to be completed not later than 1st January, 1977 included the

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158. For a note on these commissions see Europa Publications, op. cit (1971), P.120; Also see UNECA, Natural Resources Newsletter. No. 2, January,1965 and Pierre Renier, La mise en valeur Commune du bassin Tchadie, in Europe-France Outre-Mer, Paris No.412, PP. 50-6. See Further, UNECA, Report of an ECA Economic Co-operation Mission to West Africa, E/CN. 14/478, 18 May, 1970.

159. See Africa Research Bulletin, Vol, 2, No.9, 1974 P.3252A; African Contemporary Record, 1973-74, P.B 690; Africa Confidential, Vol.15, No.6, March 22, 1974, P.7; T.E. Mswaka, "Tariff Structure and Economic co-operation between Liberia and Sierra Leone" in The Economic Bulletin OF Ghana, Vol.4 No. 1, 1974, PP. 33 - 48.

liberalisation of mutual trade in local products, the harmonization of rates of import duty and other fiscal incentives. The 14-point agreement also envisages among other things the establishment of: a Ministerial Committee for Economic Union whose main responsibility will be the co-ordination of various committees of Experts (these Expert committees are expected to be engaged in various studies connected with the preparation and establishment of the sbheme); a joint Development Fund for Co-operation; and joint economic planning.

But at the centre of the proposed economic union is one key project. It is the construction of a bridge across the Mano River, linking the two countries by road. The African Development Bank (ADB) approved a loan of some US $1.64 million in 1973 to cover the foreign exchange costs of the project.[160] The successful completion of this project is expected to increase the present low level of trade between the two countries as well as facilitate economic co-operation in other areas.

One important issue in the proposed customs union of course is whether the two governments will be able to agree about the unofficial export of Sierra Leonian diamonds through Liberia. This smuggling costs Sierra Leone dear in both foreign exchange and local government revenue; but the Liberians have much to lose if the illegal trade is stopped.

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160. Ibid.

(ii) LAKE CHAD BASING COMMISSION

Lake Chad Basin Commission was established in May, 1964 and now has its headquarters in Fort - Lamy (Chad). The member states are: Cameroon, Chad, Niger and Nigeria. The Commission is composed of an Executive Secretary and two Commissioners from each Member State and its responsibility is the co-ordination of the development of the Chad Basin, particularly the exploitation of the subterranean and surface water resources in relation to agricultural development, animal husbandry and fisheries. The Commission decided recently to establish a Development Fund (to enable it to proceed with priority projects for which it at present lacks foreign assistance) and two specialised agencies of the Commission.[161] One of the Agencies would be concerned with cattle and foodstuffs and the other with agricultural produce.

(iii) NIGER RIVER COMMISSION

Niger River Commission was founded in 1963 by the Act of Niamy (Niger).[162] The members include: Cameroon, Dahomey, Guinea, Ivory Coast, Mali, Niger, Nigeria and Upper Volta. The responsibility of the Commission, which meets annually, covers navigation and general related economic activities along the whole length and breath of the River Niger, the longest river in the region. The administrative Secretariat in Niamy is under an Executive Secretary. American and Canadian assistance has been received to build a bridge over the Niger River to link Gaya in Niger to Malanville in Dahomey, and to build a river port near Gaya.[163]

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161. Africa Research Bulletin, P. 2403B
162. Europa Publications, Op. cit. P. 120
163. Africa Research Bulletin, Vol. 9, No. 2, 1973

5.9 CONCLUSION

To sum up this chapter, we recapitulate some of the more important factors affecting economic integration in the West African sub-region. Internal political and economic differences, overblown integration schemes, especially at the initial stages, external pressures and influences and pre-occupation with territorial sovereignty of the nation state have all hampered the orderly development of economic co-operation in the area. Although the general bases for effective integration in the area are still not very strong, it can surely be expected that, with the increased monetization of the economies in the region, the opportunities for effective co-operation would progressively increase.

Meanwhile, some progress has been made, albeit slow - compared with East Africa. Already the UMOA members have an effective currency union and, despite its weaknesses, the Entente still keeps alive the spirit of co-operation within the rank and file of its members. More importantly, the all-embracing ECOWAS has finally come into existence. But the observed limited success of integration schemes in the region, as revealed above, raises serious questions as to whether West Africa, at this point in history, can attain its goals of regional economic integration and development.

CHAPTER SIX

TARIFF STRUCTURES AND ECONOMIES OF THE SIX

Economic integration necessarily invèlves trade liberation either through tariff harmonization or elimination, over an agreed period, of tariff and non-tariff barriers restricting intra-union trade. The present chapter tries to examine the general tariff structures and import policies of the six countries under review and to survey their economies. Also the implications of tariff structures for possible economic integration of the six will be briefly touched upon but a quantitative analysis of customs revenue loss arising from integration-induced tariff disarmament will be postponed until we come to chapter 9. In what follows section A discusses the tariff structures and import policies whilst section B makes a broad survey of the six economies.

A. TARIFF STRUCTURES AND IMPORT POLICIES

Tariff structures and other trade taxes together with their effects on trade between prospective members of a customs union and/or trading partners have been the main hub on which conventional customs union theory revolved. Indeed, customs union theory had until recently been viewed as essentially a tariff issue, "that branch of tariff theory which deals with the effects of geographically discriminatory changes in trade barriers".[1] However, the recent shift in emphasis regarding customs union theory appreciates and recognises its wider implications for resource-allocations (and development in the case of LDCs). These tariff resource-allocation effects, whatever they are, derive from the existing tariff structure hence the existing pattern of

1. R.G. Lipsey, "The Theory of Customs Union: A General Survey", The Economic Journal, September, 1960. p. 261.

tariffs would have a direct but lasting effect on any given (developing or developed) economy[2]. For the rest of this section, we shall address ourselves to the tariff structures and import policies of Ghana and the Entente States with particular reference to harmonization.

Among the many obstacles (indicated in the introductory chapter) militating against increased trade between Ghana and her immediate neighbours are the divergencies in import policies and tariff systems. Three main factors explain the present situation. First, the historical orientation of trade towards the former metropolitan countries has imposed some constraint on tariff manipulations. Since each of these countries has its former colonial master as its biggest customer, there has been tendency to operate a preferential tariff system with respect to imports from the metropolitan countries. Although Ghana and Togo have now abolished discriminatory, in favour of non-discriminatory, tariff rates, Ivory Coast, Niger, Dahomey and Upper Volta still offer preferential tariff charges to goods originating from France or the other EEC countries or the Franc zone.[3] Goods from these countries are exempted from customs duty, though they are subject to fiscal duty.

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2. The extent to which tariffs and other trade taxes can affect resource - allocation of course depends, to a great measure, on the volume of traded goods. From the point of view of intra-regional trade in West Africa the effects are likely to be small, given the low level of trade between the countries of the region. With respect to the way tariffs and other taxes affect resource allocation, they reflect themselves in input prices which in turn affect value added via input-output relationships. See chapter 7.

3. This may now have to cease. For under Article 7(1) of the ACP-EEC Convention of Lome the ACP countries (including the Entente States) are not required to accord reciprocal tariff treatment to imports originating from the EEC (See EEC, The Courier, No. 31, March 1975).

The second explanatory factor relates to the state of regional monetary arrangements and economic co-operation. The Entente States (Ivory Coast, Niger, Dahomey and Upper Volta), which were formerly members of the UDEAO but now of CEAO, enjoy a 50% reduction in minimum tariffs on trade among themselves. This means, in effect, that exports from Ghana to the Entente countries would bear a heavier duty than those originating within the latter. Even Ghanaian goods have to face a higher duty than those of EEC when imported into Entente States except in the case of Togo[4] which operates a non-discriminatory tariff as does Ghana.

The third and last point originates from deliberate policy measures. The frequent urge to restore balance of payments equilibrium and the protection of national industries together with the monetary and fiscal measures consequent upon them have often increased rather than reduced obstacles to trade among the countries under examination. Consider, for example, the case of Togo and Dahomey. Tariff differentials between the two neighbours have often led to a kind of tariff war. The low levels of duty in Togo encourage smuggling to neighbouring countries. Dahomey, either with a view to encouraging such illicit trade, or in order to participate in its benefits cut its tariffs by 15 points in February 1968 only to receive a riposte in the form of selective cuts in Togo in June 1968. Such activity leads to considerable instability in the pattern of trade flows while the very foundation for the low tariff policy is itself an obstacle to legal trade.

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4. It is instructive to remember that although Togo became a member of the Entente Council (Conseil de L'Entente) on June 8, 1966, it did not join UDAC or its successor, UDEAO (which came into existence under a new convention with effect from December 15, 1966). Three UDEAO members (Mali, Mauritania and Senegal) also are not members of the Entente Council. See Chapter Five for details on the existing integration schemes.

We shall now go into greater detail country by country examining the import policies and tariff structures of the six, starting with the former.

1. IMPORT LICENSING AND EXCHANGE CONTROL REGULATIONS

1.1 GHANA

In 1961 the government of Ghana introduced a regime of import and exchange controls in an attempt to deal with the worsening of the country's (once healthy) balance of payments[5]. These measures have remained in existence ever since they were introduced with some "stop-go" tightening up of the regulations in recent years. The system of import licensing and exchange control was initially being used: (a) to control the level of imports of each type of commodity as well as the total value of imports into the country and (b) to alter the country's pattern of trade, more specifically, in favour of those countries with which Ghana has trade and payments agreements.[6] Under the system specific amounts of

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5. At the eve of independence in 1957, Ghana had foreign reserves totalling well over £200 million but by 1959, only two years after independence, the country had started to run deficits in its balance of payments. By the end of December 1964 the reserves had dwindled to an all time low. The net external reserves stood at £G27.5, the equivalence of about two and a half months imports. One of the major reasons behind this trend was the sharp rise in public spending. In 1950-51 total government expenditure amounted to £G17.2 million and with revenue running at £G20.9 million. But ten years later (in 1960-61) government expenditure had increased more than six times to nearly £G114 million. The economic logic of the situation therefore demanded some form of policy action. See Economic Survey, 1964, pp. 21-23.

6. Between 1960 and 1963 Ghana signed long term trade and payments agreements with 14 countries consisting of the 10 centrally-planned economies of Eastern Europe (including U.S.S.R. and China) plus Isreal, the United Arab Republic, Mali and Guinea. In each case goods to be bartered in on a non-currency transfer basis were specified. It therefore follows that import licecing and controls would have been instituted in any case after 1963, even if the reserve position of the country during the early of sixties was in a healthy state. See, Economic Survey, 1964, P. 33.

the estimated amount of foreign exchange available were allocated by the government to various categories of imports and import licences were then issued accordingly. Very recently licences were being issued under three headings:

(i) Open General Licence (OGL) which has of late been subject to frequent changes but now covers a considerable range of articles, in particular, machinery, building materials and raw materials.[7] At present, imports under an OGL are subject to an imports surcharge which on certain items may be high as 75%. This surcharge is discriminatory in favour of

(ii) essential materials.

(ii) Special Licences,[8] which cover all other permitted commercial imports. Special licences are issued on application by the importer, who must be registered with the Ministry of Trade. Importers of consumer goods are required to deposit 15% of the value of the licence with their bankers at the time of issue of the licence.

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7. This reflects the latest changes up to early 1972. It must be borne in mind that the whole system of import licencing and exchange controls in Ghana has been very sensitive to the political barometer of the country. Given the persistent pressure on foreign exchange, which has been exacerbated by heavy external debt obligations and the scarcity of badly needed imported items, successive government since the overthrow of the Nkrumah regime in 1966 has found it a useful too for galvanising political support.

8. The range of items that could be imported under specific licences were greatly increased by the military government of Col. I.K. Acheampong. With effect from 8th February, 1972 more than 350 items came under specific licences (See African Research Bulletin, February 14, 1972, P. 2272). Surprisingly enough, some of these items like milk, baby-food and beef, were importable on OGL under the regime of Dr. K.A. Busia which was overthrown in a military coup by the former on 13 January 1972. The military extended the range of imports under specific lincence as a counterblast to the by-product of their own action. When Col. Acheampong assumed power one of his first measures was to repudiate certain external debts and to declare a unilateral moratorium on others - a move which appeared very popular in Ghana. To this the countries mostly affected - Britain and the European Economic Community - quickly restored by withdrawing export credit insurance from goods ordered by Ghana. To prevent panic buying and ensure uninterrupted supply of essential imports, the military government set up a committee - the Essential Commodities committee - to import and distribute the vast majority of essential commodities. It could therefore be said that the reduction of items importable under OGL while at the same time enlarging the

(iii) Special un-numbered licences, which cover goods (other than those prohibited or restricted) for which payment has been made by the importer in the country of origin or consignment, so that no transfer of foreign exchange by the Bank of Ghana is involved. Imports in this category are not permitted in commercial quantities except in very special cases.

Until very recently a large number of consumer goods were subject to easier licencing conditions. The civilian government of Dr. Busia had planned a progressive relaxation of import restrictions[9] to stimulate competition with local producers which would have had the effect of lowering prices for the Ghanaian public. However, this trend was reversed following the intervention of the military. Now most items require specific licences and importers are required to make applications, which must cover requirements for one year, (in duplicate) to the Ministry of Trade. Even so most of the imports are currently being handled by the Essential Commodities Committee, although this is likely to be a temporary arrangement. Most of the goods listed for specific licences are mainly those produced by developing domestic industries which Ghana naturally wishes to be protected.

Other features of the Ghanaian import licencing system cannot be ignored. Licences, when approved, are normally issued on a c and f. basis, it being stipulated that insurance must be covered in Ghana. Additional import licences are issued under an export incentive scheme to manufacturers who use the goods

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list under specific licences was intended to strengthen the hand of the government in regulating imports at a somewhat critical time.

9. When the Busia regime devalued the cedi by 43.9% (from US $0.98 to 55 cents), an act which was to prove politically suicidal, it was also followed by the abolition of surcharges on imported goods. But the emergence of the military saw a reversal of both measures. The cedi was revalued by 42% (from 55 cents to 78 cents) and import surcharges were reimposed with tighter import procedures. (See The Financial Times, December 29, 1971 and Africa Research Bulletin. February 14, 1972. P. 2272).

imported in the manufacture of goods for export. With respect to the methods and terms of payment efforts are made to ensure that all licences are covered by foreign exchange. As a common practice payments for imports must be made on an 180 day credit basis, except that payments for certain essential food item and for imports made under foreign aid agreements may be made at sight. However, delays in releasing foreign exchange of about two to four months after the due date are not uncommon.

1.2 IVORY COAST, DAHOMEY, TOGO, NIGER AND UPPER VOLTA

The Entente countries, which are also members of the West African Monetary Union (WAMU), sharing a common Central Bank, the Banque Centrale des Etats de L'Ouest (BCEAO)[10], have similar import licencing and exchange control regulations. It is therefore more convenient to discuss them as a group.

Exchange control applies to all currencies other than the CFA franc and the French franc. In general all imports into the Entente States from foreign countries outside the Franc zone are subject to import authorization. For a small sector of the economy which has been "liberalised"[11], only an import certificate, which is readily granted is required, but for other goods import licences are controlled by quotas. Foreign exchange is made available under three main

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10. Three BCEAO/WAMU members (Mali, Mauritania and Senegal) are not members of the Entente Council.

11. This refers to those importable items liberated for countries outside the franc zone (including OEEC members, the United States and Canada) prior to independence with the collaboration and approval of France but have been maintained, apparently with no additions, ever since. The commodities concerned include salt, perfumery, lime, coal-tar and galvanised iron sheets. See: IMF, Surveys of African Economics, Vol. 3, 1970 p. 108 and U.K. Department of Trade and Industry, Hints to business men: Dahomey and Togo, 1971, P. 22. Togo, in view of its policy of nondiscrimination, is the only Entente state that did not issue any liberalization lists.

headings:

The Common Market (EEC)[12]

Bilateral Trade Agreements[13]

Global Quotas[14]

The quotas specify the total foreign exchange available for purchases from each of the groups and, within each of these quotas, the available exchange is further allocated in groups of commodities.

The commodity groups are divided and import licences are issued to licenced traders and, in exceptional cases, to industrial or agricultural producers. The amount allocated to individual traders are decided by a points system based on the amount of trade done in the commodity concerned and the size of the trader's investment in the country. Persons or firms entitled to hold foreign currency abroad may seek permission to import goods for their own use to be paid for out of these holdings.

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12. Soon after the associate membership of the EEC - before the First Yaounde convention - the markets of the BCEAO countries started to open up progressively to imports originating outside the French Franc area. The liberalization has occurred primarily through (i) relaxation and eventually elimination of quantitative restrictions on imports from EEC countries other than France, (ii) reduction and then elimination of customs duties on commodities originating in those countries, and (iii) gradual dismantling of the ceiling and floor systems under which imports of French origin had been guaranteed preferential access. As required under the Yaounde Convention (Protocol No. 2), the BCEAO countries awarded all EEC States duty free entry from December 1, 1964 and liberalized imports of EEC origin on or before June 1, 1968. Today, the EEC is the dominant trading partner of the Entente States, accounting for over 60% of total trade. See IMF, op. cit. P. 110

13. Trade agreements entered into have been few and far between - not only small in number but simple in structure. Most provide reciprocal assurances with respect to market access, but any commodity lists that are attached are usually of the indicative type, stating the types of commodities which the partner countries expect to exchange rather than listing binding licencing or purchase of commitments. Hence, bilateral agreements have had little impact on the direction of trade (Ibid, P. 115).

14. For non-EEC members who have no trade agreements with the Entente countries, exports to the latter can only take place under this category.

As a general rule, import licences are valid for 6 months. But for consumer goods they can be extended for 2 consecutive periods of 3 months and for capital goods for 3 consecutive periods of 6 months each. Licences are made readily available for the import of capital goods necessary for the development of the individual countries. Such goods are called biens d'equipment (equipment of welfare) and are not subject to the annual quotas outlined above. To guard against fraud, licences are issued for specific types of goods and substitution of other types is strictly prohibited.

In practice, however, the structure and implementation of most import programmes are affected by one or more special arrangements. Imports of certain sensitive items (such as alcoholic beverages, distilling equipment, live animals, arms and amunitions, rough diamonds, obscene publications or films, drugs, narcotics, paints, coin operated amusement apparatus, detergents, scouring pastes and powders, living plants and seeds, eggs, plastic articles including footwear, rags and used clothing[15]) could be subject to a ceiling applicable to all countries outside the French franc area or a floor for imports of French origin. Also imports of specified other commodites, mainly textiles, could be subject to a ceiling when originating in "low-wage" countries or "countries with abnormal competition", which might include such sources as Hong Kong, India, Pakistan, Portugal, the Republic of China, and Japan[16]. There have also been ceilings on imports from Eastern and mainland China.

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15. See Economic Report: Ivory Coast, 1971 by Lloyds Bank Ltd., Overseas Department; and Dept. of Trade and Industry (UK), Op. cit (Ivory Coast, Togo, Upper Volta), P. 40.

16. See IMF, op. cit., p. 109. Niger has had no special quotas for "low wage" countries because it preffered to import from the cheapest source. Ivory Coast prohibited certain imports from such countries administratively and also applied the triple customs tariff (general tariff) to them. Togo's policy of nondiscrimination precluded the use of ceilings and floors.

The usual methods of payment for exports to the Entente council members are by irrevocable letters of credit. Documentary collections[17] are also used, and are becoming more common. Exchange is made available through authorise banks, though advanced payments for imports requiring a licence are not normally permitted.

One final work must now be said. One of the most important but unique features of the policies of the Entente countries is the special position of France vis-a-vis other suppliers. The Entente Council States (ECS) still find their economies closely meshed with that of France. This is so in spite of the fact that the six members of the EEC now have free access to the market of the ECS, and in spite of the fact that each of the six has equal rights of establishment for business, enterprise and investment in the ECS; and also in spite of the fact that purchases of equipment under the European Development Fund, are open on equal terms to all the signatories of the Yaounde Convention[18], which has been replaced by Lome Convention. The importance of France as a major trading partner stems from several factors, most of which have a very long history. The maintenance of cooperation arrangements for comprehensive aid from colonial rule to independence, the predominance of French firms or their subsidiaries, the existence of a strong preference for French products and a measure of cultural attachment to French values have all combined to keep France in its preponderant position.

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17. For imports on a collection basis and on open account, foreign exchange may be purchased only after the goods have cleared customs and no sooner than eight days prior to maturity in the case of time drafts and eight days prior to the payment date specified in the commercial contract in the case of open account transactions.

18. It is not being denied here that these factors are beginning to have their impact. Trade with EEC countries other than France expanded considerably over the period 1960 through 1967. These countries took about 18% of total exports and supplied almost 19% of total imports of the area. Imports from other sources such as the U.S.A. are also growing, due partly to aid and trade arrangements. Japan, too, is becoming a more important source of supply. But even allowing for these developments, France still accounts for half of the ECS trade and it will really take some time to reverse this trend.

Although, as indicated above, EEC countries outside France as well as non-EEC countries are gradually increasing their trade with the ECS, a really breakthrough is yet to be achieved. France's strong economic and monetary ties with the ECS tend to accord the former a secure position in its trade with the latter. And from the standpoint of integration this has an important bearing since co-operation with Ghana might usher in some adjustments, albeit slight, in the pattern, and direction of trade with respect to simple manufactures in so far as Ghana would be in a position to supply some of such items currently imported from France.

2. TARIFF STRUCTURES AND TAXES

A consideration of the differences in tariff structures between Ghana and the Entente Council States(GECS) is important because the possibilities of economic co-operation centre largely on the possibilities of harmonising the disparities in their fiscal systems. A common system of classification is going to be useful here. Fortunately, the classification system adopted by all six countries is the Brussels Tariff Nomenclature (BTN),[19] hence tariff rates among GECS are comparable, though this does not detract from the differences in tariff charges. In fact, one of the more widely accepted obstacles to the expansion of trade within GECS is the existing level of tariff discrimination in the ECS against Ghana.[20] In our discussions of their tariff systems, we shall first

19. This is one of the two internationally recognised and standardised classification systems. The other is the United Nations Standard International Trade Classification (SITC).

20. As indicated earlier all ECS members with the exception of Togo operate preferential tariff system both in favour of themselves as members of the UDEAO and in favour of goods originating from EEC Countries while discriminating against others. Togo like Ghana has non-preferential tariff rates. But UDEAO has been replaced by CEAO.

outline the basic tariff structures of the individual countries and then, on the basis of a chosen product, compare the ECS tariff with those of Ghana.

2.1 GHANA

Ghana operates a one-column customs tariff with import duty rate applied equally to goods from all countries except between end-users. The customs tariff contains both specific and ad valorem duties average from 10 to 66⅔%, with luxury items as high as 100%. Purchase tax is levied on motor cars at rates varying between 10% and 200% of the value, and on commercial vehicles at rate graduating from 5% to 33⅓%; on motor cycles and scooters the rate is 12½%. On most other goods there is a sales tax of 11½% on the duty inclusive cost. Sales tax has some strange features. It enters into the prices of imported goods in the same way as the value added tax in the Ivory Coast yet it is not specifically an import duty but it is, nonetheless, levied on imports. There are, also temporary import surcharges[21] ranging between 5% and 150% levied on most goods imported under open General Licence. While there are exceptions in each category, some of the more important examples are: chemicals, spare parts for machinery (5%), printed matter (10%), vehicles (25%), machinery (40%), textile fabrics (75%), footwear (100%), clothing (125%)[22].

Like Ghana, Togo has non-preferential duty rates averaging approximately 20%[23], although, unlike the former, the latter has lower tariff charges than its immediate neighbours. In general, duties are lowest on essential consumer and capital goods and highest on non-essential and luxury items. Most duties are on an ad-valorem basis and are levied on the c.i.f. value of the goods.

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21. The last civilian government had abolished this following the devaluation of the cedi in December, 1971 but with the military take-over that followed a few weeks later it was restored and the cedi regalued upwards.

22. See (UK) Department of Trade and Industry: Ghana, op. cit.,

23. This is variable and could sometimes be as low as 10%.

Apart from customs duty, other taxes on trade are levied.[24] There is a standard surtax on imports and a standard surtax on export transactions; these taxes are fixed at 18% on imports and 6.5% on exports. This is often referred to as transactions tax. A set of other fees are collected on the goods at the time of entry or exit including a customs stamp duty, a statistical fee of 3% on the proceeds of import and export taxes, an earmarked surtax levied for the benefit of the Road Fund (taxes au profit du Fonds Routier), and a surtax on alcoholic beverages.

Other indirect taxes include a turnover tax, which applies only to sales of manufactured products (10%) and services rendered (8%). A special tax is imposed on certain goods which are to be re-exported.

DAHOMEY

Until recently Dahomean tariffs were many and administratively complicated. On January 1, 1967 the authorities reviewed the existing system of duties and taxes with a view to simplifying the entire structure. As a result of this reform substantial changes have taken place.

For the purpose of levying duties the c.i.f. concept is considered as the basis of value. The tariff rate structure differentiates among (1) essential foods, raw materials and capital goods - all generally exempt from duty; (2) commodities regarded as nonessentiality; and (3) certain commodities subject to higher duties for protective purposes.

Similarly, the fiscal fee, the turnover tax, the statistical tax, the fiscal tax and the "condition" tax, which were formally separate items, were eliminated and consolidated into fiscal duties[25].

24. IMF, Op. cit., P. 653. The stamp duty tax was raised from 3% to 4% in the 1971 Budget.

25. Ibid, P. 184.

Curently, imports are subject to (i) customs duties, (ii) fiscal taxes, and (iii) certain minor taxes.

(i) Customs duties are applied ad valorem on all imports. A four-column customs tariff is in vogue. The lowest rate applies to imports from other members of WACU (half the EEC rate). A higher rate applies to goods from EEC and non-WACU members of the Franc zone. Still higher rates apply to goods from other countries having a formal trade relationship with Dahomey. The highest rates (usually three times the minimum) are applied to imports from all other countries. However despite its discriminatory tariff structure, Dahomey has drawn up on a unilateral basis a list of products which receive the benefit of the minimum customs tariff even though most-favoured-nation treatment is not granted to the country of origin of such imports[26].

(ii) Fiscal taxes are applicable irrespective of the country of origin of imports except that imports from WACU members are subject to a preferential tariff which is 50% of the fiscal tax normally applied. It must also be mentioned that Dahomey has entered into a bilateral convention with certain other WACU members to exempt specific products from the application of fiscal tax (e.g. the convention between Dahomey and Niger).

(iii) Other forms of import taxes include a customs stamp duty of 4% levied on the total amount of fiscal taxes and customs duties assessed; a specific tax (taxe specifique au profit du fonds de soutien des produits a l'exportation) levied for the purpose of the stabilization Fund for Agricultural Products; and a special tax (taxe speciale d'amortissement), which is levied on the import value and is earmarked for the Amortization Fund. The special tax usually is a tax on both imports and internal consumption; at the import stage, it is 5% of the c.i.f. value.

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26. Ibid.

Export duties are also imposed. Export taxes are levied on certain goods for revenue purposes. Since January 1, 1967 the various export duties have been consolidated into a single levy concerning the previous fiscal duty, export turnover tax, statistical tax, fiscal tax and "condition" tax. Furthermore, exports are, in addition, subject to a customs duty stamp of 4% assessed on the amount of payable customs duties and taxes as well as to a specific tax for the purpose of the Stabilization Fund for Agricultural Products.

The Dahomean government relies, like most other LDCs, very heavily on customs duties and other indirect taxes. In 1967, total government revenue amounted to 12% and tax revenues to about 11% of GDP. For the same year, customs duties and other indirect taxes amounted for nearly 65% whilst, taxation on imports alone accounted for 51% of the total budget revenue. Because of the importance of the foreign trade sector, which accounts for about 30% of the GDP, control and prevention of smuggling is an important consideration in the administration of customs duties in Dahomey. Smuggling had occurred in the past mainly because of the tariff differentials in the duty structures between Dahomey on the one hand and its two (western and eastern) neighbours, Togo[27] and Nigeria on the other. The contribution of import-export taxes to the Dahomean government chest underlines the consequences that would follow in the event of the formation of a tariff-cutting union without other compensatory arrangements.

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27. In early 1968, the government of Dahomey was so concerned with the level of smuggling from Togo that it substantially reduced its import tariffs in line with the Togolese tariffs in an effort to deal with the problem. In the case of Nigeria official consultations with a view to tighter border checks had taken place.

2.4 NIGER

It could be said that Niger has four main groups of indirect taxes. These are: import taxes, export taxes, turnover taxes, and specific excise taxes.

As in other entente states, import taxes form the major part of indirect tax receipts. They comprise (i) customs duties; (ii) fiscal duties and other fees (statistical fee, examination, sealing and warehouse fees, and an earmarked surtax to the Road Fund); and (iii) a standard surtax on import transactions (taxe fortaitaire) levied on the total value of imported commodities inclusive of customs and fiscal duties.

Import taxes vary according to the origin of imported commodities. Fiscal duties and fees (including the statistical fee of 1% ad valorem) and the standard surtax, ranging from 10 to 25% ad valorem, depending on commodities (essentials or nonessentials) are levied on imports from the franc area and EEC countries. Imports from WACU (CEAO) countries are subject to the same taxes but receive a rebate of 50% on their rates, except on import duties levied for protective purposes, this rebate is limited to 30%. Imports from countries for which the minimum tariff is applied are subject to customs duties, in addition to fiscal and other import taxes applied to countries in the franc area and the EEC. Imports from other areas are subject to the general tariff; the rates of the customs duties under this tariff are normally three times as high as those under the minimum tariff.

With respect to export taxes, fiscal duties and other fees (statistical, examination, and sealing and warehouse fees) and a standard surtax on export transactions (tax forfaitaire) are levied on the total value of exported commodities including fiscal duties. The contribution of export taxes generally represented a fifth of the amount raised from import taxes.

Turnover taxes are levied on production and services activities that are not subject to the import and export turnover tax. The rate of the tax on production is 18% of the value of imports of industrial enterprises; collections from this tax are usually negligible. The rate of the tax on services has increased from its pre-1963/64 level of 6% to 13% in 1966/67.

Furthermore specific excise taxes are imposed by the Customs Administration on alcoholic beverages, tobacco, cigarettes, and petroleum products. In the 1967/68 budget[28], the tax on alcoholic beverages was raised from an average of 20% to 100% and taxes on tobacco and cigarettes from an average of 33% to 60%.

2.5 UPPER VOLTA

Upper Volta's tariff structure is essentially the same as that of Niger, except that the former has "temporary" taxes. Fiscal and customs duties, which account for over 66% of all indirect tax proceeds[29], are the most important categories. Fiscal duties on imports ranging from 1 to 30% apply to all imports except those originating from the countries forming the WACU. Those imports, as noted earlier, are subject to a taxe unique, which amounts in principle to half the amount of the minimum import tax applicable to imports from third countries. Most capital goods are exempted from fiscal duties.

Customs duties are not imposed on imports from countries of either the EEC or the French franc area. Imports from countries with which Upper Volta maintains a trade agreement and those which have such agreements with France (e.g. Brazil, Denmark, the U.S.S.R., the United Kingdom, and the United States) are

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28. Ibid, P. 458

29. In 1968 all indirect taxes contributed 57% of the total budget revenue (Ibid, P. 723).

subject to a minimum tariff with rates ranging from 1 to 25% of the actual value of imports. However, for certain consumption and capital goods a statistical value, usually lower than the actual value, is used for the computation of duties.

Aside from the two categories mentioned above, Upper Volta levies other indirect taxes. Imports are also subject to a surtax, which generally amounts to 25% of the actual value regardless of the origin of the goods. Basic consumption goods and capital goods are either taxed at a lower rate or exempted. Other indirect taxed (levied ad valorem on imports) include a statistical tax of 1%, a development (temporary) tax of 10%, a compensatory tax of 3%, and a support (temporary) tax of 1.5% plus other small taxes on specific commodities. Exports are subject to a fiscal duty of 0.5-16% to a 1% service tax, to a 5.4% surtax and to the temporary subsidization tax. Similarly a special tax is levied on cattle exports which constitute a vital aspect of the export trade.

The unwieldy tax structure of the Upper Volta has been considerably simplified and rationalized following the setting up of a special tax commission in 1967. This Commission, which was assisted by a team of experts from the IMF, has made its recommendations[30] and some of them, including the regrouping of customs and fiscal duties, had already been implemented and further improvement based on the recommendations are in the pipe-line.

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30. Ibid. P. 726.

2.6 IVORY COAST

In the Ivory Coast there are two basic tariff charges: (i) non-preferential fiscal duty fixed at 20% and (ii) a customs duty on imports, averaging 15%. The former is levied on all imports regardless of origin but the latter is a variable duty applied to goods, according to origin, from sources outside the EEC and its Associated Overseas countries.

The additional indirect taxes consist of a special import duty at the rate of 10% of the C.I.F. value and the so-called valued-added tax which averages 28% on imported goods and at least 25% on most locally produced goods. The value-added tax in the Ivory Coast has the same effect as the surtax (taxe forfaitaire) in the Upper Volta.

Typical of many LDCs, indirect taxes account for about 75% of all public revenue and import-export taxes alone account for some 56% of ordinary budget revenue. From 1960 through 1965 the growth of government revenue exceeded the growth of the economy; the ratio of total government revenue to GDP rose from 18% in 1960 to 20% in 1965. However, this ratio declined [illegible] to 19% from 1966 to 1967, but catapulted again to 21% in 1968.

2.7 IMPLICATIONS OF TARIFF STRUCTURE AND IMPORT DUTY DEPENDENCY

Although the present study does not envisage an immediate conventional customs union among the GECS which would normally involve the unification of national tariffs, it is nevertheless important to discuss the possible implications of integration-induced tariff adjustments between the GECS states.

One important aspect of the question relates to the revenue loss effects of tariff disarmament. This of course depends on the structure of imports of members of the proposed grouping and the ability of intra-union producers to capture the entire intra-union market in those commodities which were imported from other countries prior to integration. But as we noted in chapter 2 West African countries trade mainly with the advanced countries of the West; hence integration is unlikely to lead to a drastic reduction of imports from developed countries at least in the short-run. Table 6.1 broadly demonstrates the imports structure of the GECS. Three important Standard international Trade Classification (SITC) commodity groups alone (manufactured goods, machines and transport equipment and chemicals) constitute between 60% and 75% of their total annual imports and are almost entirely imported from outside West Africa. Most of the remaining items excluding food and live animals are also imported from non-African sources. Even in the case of food items GECS states still import a sizeable proportion of their food. For instance, Ghana's imports of food items accounted for 19% of its total imports in 1970. The corresponding figure for Upper Volta from 1969 through 1971 is about 17%. In the other countries the range is between 9% and 15% (Table 6.1). The Table suggests that similarities exist not only in the composition but also in the origin of imports of the GECS. Given this structure and the present low level of intra-GECS trade, it seems that any tariff reductions affecting this small volume of trade will not

TABLE 6.1

GHANA-ENTENTE: THE STRUCTURE OF IMPORTS: 1969-1971

SITC COMMODITY GROUP CODE	COMMODITY GROUP DESCRIPTION	1969						1970						1971					
		G	IC	D	N	T	UV	G	IC	D	N	T	UV	G	IC	D	N	T	UV
		%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
0	FOOD AND LIVE ANIMALS	15.60	11.8	12.3	9.4	12.5	17.0	19.0	12.6	10.0	10.6	12.3	17.3	14.10	12.4	10.2	9.6	9.7	17.6
1	BEVERAGES & TOBACCO	0.50	2.5	6.8	3.3	9.4	1.8	0.94	2.6	7.6	2.6	10.4	2.0	1.04	2.7	6.7	2.7	9.4	2.9
2	CRUDE MATERIALS	1.5	1.2	2.4	3.02	3.7	7.3	2.2	1.4	2.5	3.9	3.2	6.4	2.80	1.2	4.5	2.3	3.9	6.2
3	MINERAL FUELS	6.5	5.2	3.5	4.24	4.7	6.6	5.8	4.9	3.8	4.0	4.4	8.2	6.10	4.8	3.6	8.5	5.5	8.8
4	ANIMAL, VEGETABLE OIL & FAT	1.7	0.52	0.42	0.76	0.5	0.33	0.92	0.6	0.2	1.0	0.4	1.0	1.20	0.94	0.3	0.7	0.6	1.2
5	CHEMICALS	15.5	7.4	9.6	5.2	7.2	6.5	15.9	7.6	8.9	7.0	6.8	7.6	16.20	8.84	9.1	7.7	7.0	8.7
6	MANUFACTURED GOODS	27.5	28.9	38.3	34.0	33.1	29.02	24.1	29.6	38.0	36.4	34.4	25.0	22.50	27.34	35.9	29.2	32.7	22.7
7	MACHINES & TRANSPORT EQUIPMENT	26.7	33.6	20.1	31.2	22.7	26.3	25.9	32.9	20.8	26.4	22.2	27.2	29.70	32.5	19.2	29.8	25.5	26.2
8	MISCELLANEOUS MANUFACTURES	4.10	8.2	6.5	5.7	6.30	5.2	3.90	7.6	8.2	4.5	5.8	5.0	4.30	7.7	10.5	5.4	5.7	5.2
9	GOODS NOT CLASSIFIED	0.50	0.52	-	3.3	-	-	1.30	0.20	-	3.7	-	-	2.0	1.6	-	4.1	-	0.4
	(PERCENT)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
	(VALUES (US $ MNS.)	347.3	333.9	54.7	48.7	56.4	49.8	409.9	387.2	63.6	58.4	64.5	46.7	433.6	398.1	76.3	53.0	70.0	49.7

NOTE: G = Ghana; IC = Ivory Coast; D = Dahomey; N = Niger; T = Togo; UV = Upper Volta.

Source: Calculated from UN, International Commodity Statistics, 1969 - 1971.

TABLE 6.2

GHANA-ENTENTE: SHARE OF IMPORT DUTY IN TOTAL REVENUE, 1966-70

(A V E R A G E)

	GHANA		IVORY COAST		DAHOMEY		NIGER		TOGO		UPPER VOLTA	
	£mns	%	Mn CFA Francs	%	Mn CFA Francs	%	Mn CFA Francs	%	Mn CFA Francs	%	Mn CFA Francs	%
IMPORT DUTY	64.5	23.9	22,267	54.7[a]	2,949	49.2	3,416	36.0	4,493	74.6[a]	4,960	59.3[a]
DIRECT TAXES	59.0	21.5	7,500	18.4	1,287	21.5	3,434	36.2	610	10.1	2,109	25.2
OTHER REVENUES	155.2	54.6	10,966	26.9	1,752	29.3	2,642	27.8	921	15.3	1,296	15.5
TOTAL REVENUE	278.7	100.0	40,733	100	5,988	100	9,492	100	6,024	100	8,365	100

Note: a = figures that include export taxes as well.

Source: Computations based on data extracted from I.M.F., Surveys of African Economies, Vol. 3, 1970 and: CBS, Economic Survey, 1969, Accra, 1970.

drastically reduce government receipts.

However, since the GECS states like most developing countries - display characteristic high dependency on import duties proposals which may affect customs revenues should be closely examined for their revenue implication (see chapter 9). The extent of dependency on import duties in the six countries under review is shown in Table 6.2. Because the figures are presented as averages for comparative purposes and convenience, the year-to-year variations are concealed. The year-to-year data however do not vary markedly from the mean hence they would not significantly alter the picture[31]. Comparison is also made between the proportion of import duties in government revenues and the ratio derived from direct taxes and other sources of public revenue.

As the Table indicates import duty contributes between 24% (Ghana) and 75% (in Togo) to public revenues. The reason for the seemingly low figure for Ghana is that 23.9% represents the contributions of import duty alone. But the figures for Ivory Coast, Upper Volta and Togo include export taxes as well. No separate import taxes data for these three countries are readily available. Although the inclusion of export taxes has exaggerated the contributions of import duties in these three states, it is unlikely that import taxes alone would contribute anything less than $\frac{1}{3}$ of public receipt in each case. The corresponding data for Dahomey and Niger are 49% and 36 respectively.

In comparison direct taxes contribute less than import duties. The share of the former, as shown in Table 6.2, ranges from 18% in Ivory Coast to 36% in Niger. The ratio of direct tax receipts to total revenue is expected to increase with economic advancement. Even at this stage in the economic

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31. See Table 6.2 sources.

development of the area it is conceivable that the share of direct taxes will increase with improvements in tax administration, the introduction of additional sources of revenue and a general acceptance of civic responsibilities by the populace of the area.

Perhaps, it may be more difficult to introduce new sources of revenue than to eliminate inefficiency in tax administration and to minimise the incidence of tax evasion and avoidance. Ghana's Central Bureau of Statistics, in its survey of the Economy of Ghana, confirms this impression. It concludes that the difficulties of tax collection facing the government revenue authorities account mainly for the small contribution of direct taxes; and it recommends improvements in tax administration as a solution[32]. This conclusion can be uniformly applied to other West African States for they face essentially similar problem. Indeed, other independent studies carried out in different countries of the region arrived at similar verdicts and prescriptions.[33]

At present these countries are relying very heavily on import and export taxes, both of which are easier to collect than direct taxes. In the case of Ghana export taxes principally from cocoa form the most important single source of government revenue, accounting for 30% of total receipts in 1969[34]. But in

32. See Central Bureau of Statistics, Economic Survey, 1969, Accra, 1970, p.26

33. Byron Tarr concluded that the elimination of inefficiency in tax administration in Liberia could raise total direct revenues by as much as 40%. He came to similar conclusion in the case of Sierra Leone (See S.B. Tarr, Efficiency in Revenue Generation: A Measure of Ability to Promote Economic Development, an unpublished Ph.D. thesis, University of Illinois, 1972). I.O. Dina in his article entitled "Fiscal Measures" had a similar thing to say about Nigeria (I.O. Dina, "Fiscal Measures" in A.A. Ayida and H.A. Onititi (eds), Reconstruction and Development in Nigeria, NISER, Ibadan, 1971, pp. 374-400.

34. See Footnote 32, p. 25.

view of the inherent export instability of these countries, particularly with respect to cocoa, receipts from export trade are bound to fluctuate as the prices of their primary export products fluctuate in the world market. Besides, it is anticipated that with advancement in industrialization and integration intra-union trade will be extended to certain commodities that are presently exclusively exported to countries outside West Africa. Ceteris paribus, this would further diminish the contributions of export taxes. It is therefore reasonable to expect that in the long-run direct taxes will furnish the bulk of public revenue. To be able to do this the machinery of tax administration must be improved and strengthened so that the additional revenue collected due to improvements in methods of collection will be large enough to offset or minimise the revenue-loss effects of integration.

The other factor which might shed effects on government revenues turns on the rates of duty. Because of their importance as a source of capital formation, it seems that tariff levels in the GECS are intended as revenue raising devices rather than as means of protection for local production industries. Even so it is difficult to draw a sharp dividing line between revenue-raising rates and protective tariff levels. Objections to such rigid distinctions may be stronger and apply more to the tariff structures of LDCs. For one thing, a protective tariff presupposes local production of the commodity in question. But such assumption cannot always hold with tariff structures of LDCs where high tariff does not, as we shall show later, lie on the height of tariff alone but also on effective rate of protection, i.e. the protection of domestic value added. It also depends on the existence of non-tariff barriers to trade, in the form of currency exchange control, import quotas, import licencing, and cumberous customs delays which are not of interest to us here.

TABLE 6.3

GHANA - ENTENTE: THE STRUCTURE OF TARIFFS IN 1971:

SITC COMMODITY GROUP CODE	COMMODITY GROUP DISCRIPTION	PER CENT OF TOTAL IMPORTS						TARIFF RANGE						AVERAGE TARIFF					
		G	IC	D	N	T	UV	G	IC	D	N	T	UV	G	IC	D	N	T	UV
0	Food & Live Animals	14.1	12.4	10.2	9.6	9.7	17.6	0-50	5-45	3-45	1-35	0-38	1-40	45	37	34	30	29	33
6	Manufactured Goods	22.5	27.34	35.0	29.2	32.7	22.7	0-200	3-50	0-75	3-60	3-40	3-60	66	44	41	32	23	48
7	Machinery & Transport Equipment	29.7	32.5	19.2	29.8	25.5	26.2	5-40	5-40	0-50	0-45	0-30	0-40	19	20	22	23	14	24
TOTAL	0 + 6 + 7	66.3	72.2	65.3	68.6	67.9	66.5	-	-	-	-	-	-	41	36	34	30	24	37

Source: Calculations from Tariff Schedules, Department of Customs and Excise, Accra, Ghana (June 1971); Entente Nos. 5 and 6 (February & March 1971); Lloyds Bank Limited; Economic Reports (for Ivory Coast, Niger, Dahomey, Togo Upper Volta) 1970; IMF, International Commodity Statistics; and IMF, Surveys of African Economies, Vol. 3, 1970.

Table 6.3 presents the tariff structure of the GECS states based on three chosen SITC commodity groups (i.e. 0,6,7). The choice of these items is based on data availability, coverage of as much of each country's import trade as possible, and, On the case for potential competition among the six countries. The period 1971 was a typical year for which import data were available to permit comparisons.

The traditional methods of measuring the height of tariff barriers aim at calculating an average of tariff rates, either by taking an unweighted average of tariff rates or by using weights derived from import volumes - which is equivalent to dividing tariff revenue by total value of import.[35] The statistical defects of these methods of averaging are well known; they stem from the arbitrariness of the tariff classifications that give rise to the individual tariff rates in the first place, and from the inter-correlation of tariff rates and trade volumes in the second place. Furthermore, recognition of the input-output nature of production, and of the fact that tariffs may both subsidize and tax domestic productive activities, raises the question of the meaningfulness of an 'average' tariff rate as an index of the protectiveness of a national tariff structure. The most fundamental criticism of tariff averages, however, is that the objective is to measure the extent to which the tariff structure restricts trade and this depends on the relevant elasticities as well as on the tariff rates.

35. See Harry G. Johnson, Aspects of the Theory of Tariffs, Allen & Unwin, London 1971, p. 344. Also see W.M. Corden , "The Effective Protective Rate: The Uniform Tariff Equivalent and the Average Tariffs", Economic Record, Vol. 42 (1966), pp. 200-16; - "The Structure of a Tariff system and the Effective Protective Rate", Journal of Political Economy, Vol. 74 (1966) pp. 221-37; H.G. Grubel, et.al. "Nominal Tariffs, Indirect Taxes and Effectice Rates of Protection: The Common Market Countries, 1959", Economic Journal, Vol. 77 (1967) pp. 761-76; and B. Balassa, The Structure of Protection in Developing Countries, The Johns Hopkins Press, Baltimore, 1971.

These weaknesses notwithstanding either of the two methods of calculating an average of tariff rate is often employed for analytical convenience and ease. The formula used in calculating average tariff rate as presented in Table 6.3 is as follows:

$$\bar{X} = \frac{X}{N}$$

where X is the tariff rate and N is the number of observations.

The items examined in each country were these: Ghana, 621; Ivory Coast, 566; Dahomey, 592; Niger, 494, Togo, 588; and Upper Volta, 607. It must be noted that all the GECS countries levy both specific and ad valorem rates, the latter being imposed on fewer items than the former. To compute the arithmetic average tariff rates, specific rates were converted to ad valorem ones, by multiplying the quantities by the rates, and expressing the result as a proportion of the c.i.f. value of the imports.

The results obtained from this exercise reveal a number of interesting features. There is a considerable, though understandable, degree of similarity in the tariff structures of the Entente countries. On the average Ghana has the highest nominal tariff rates whilst Togo, the former's immediate eastern neighbour, charges the lowest rates within the GECS. Not only are individual rates relatively lower but also there are more duty-free items in Togo than can be found elsewhere in the area. This explains in part the perennial problem of smuggling across the Ghana-Togo border.

Within the GECS the average duty imposed on Machinery and Transport equipment ranged, as Table 6.3 shows, from 19% in Ghana to 24% in Niger and were uniformly lower than the rates applicable to the other commodity groups (0,6). Unlike manufactured consumer goods, industrial machinery and transport equipment are mostly imported from outside the West African region; and governments of the

area encourage the importation of the latter category of goods as an integral part of their industrialization stategy, hence their low tariff rates. Not surprisingly, manufactured products carried higher average tariff duties than Food and Live Animals excepts in the case of Togo.

Table 6.3 covered only three commodity groups (0,6,7) which accounted for between 65% and 72% of the imports of individual countries under consideration. To this extent any findings based on the Table must be treated as inconclusive. Nevertheless, one or two conclusions - albeit tentative - are inescapable. Ghana's average rate of tariff is higher than those of other members of the GECS. Togo on the other hand has the lowest rate; whilst the rest have marginally varying rates in between those of Ghana and Togo. The observed differential rates of tariff have wide implications for market integration. Intra-union tariff adjustments or disarmament with particular peference to the products of integration industries must therefore precede any effective integration scheme in the area.

2.8 THE EFFECTIVE RATE OF DISCRIMINATION BETWEEN THE ECS AND GHANA

Presently Ghana faces a stiff discriminatory tariff in its trade with the Entente states vis-a-vis those nations accorded "most-favoured-nation" treatment by ECS. It is expected that the picture will certainly change once the new Lome Convention, which is yet to be ratified, enters into force (See Chapter 2).

In the mean time, Ghana enjoys neither the "Special" minimum tariff charges in force within the former UDEAO members nor the duty-free entry rights accorded to EEC goods nor even the fringe "free" mobility of goods from member states within the Entente council.[36] Consequently, in the case of a number of

36. See E. I. U. Et.al, op.cit. Vol. I, P. 228

TABLE 6.4

TARIFF COMPARISONS BETWEEN GHANA AND EEC GARMENTS ENTERING THE ENTENTE STATES

IVORY COAST			UPPER VOLTA			DAHOMEY			NIGER			TOGO	
	GHANA	'EEC		GHANA	'EEC		GHANA	'EEC		GHANA	'EEC		
C.I.F. Price	100	100	C.I.F. Price	100	100	C.I.F. Price	100	100	C.I.F. Price	100	100	C.I.F. Price	100.0
Fixed duty	20	20	Statistical tax	1.0	1.0	Total duties	49	31	Statistical price	1.0	1.0	Customs duty	10.0
Customs	15	-	Customs duty	15.0	-	Price Paid by Importer in Dahomey:	149	131	Customs duty	15.0	-	Fixed Rate Tax	17.0
Special duty	10	10	Temp. Dev. Tax	10.0	10.0				Fiscal duty	20.0	20.0	Statistical tax	1.0
Value Added Tax	26.1	23.4	Compensating Tax	3.0	3.0				Fixed charge	34.0	30.25	Stamp tax	0.81
Price paid by Importer in Ivory Coast:	171.1	153.4	Temp. Support Tax	1.5	1.5				Price paid by Importers in Niger:	170.0	151.25	Price paid by Importers in Togo	128.81
*Effective Rate of discrimination:	11.5		Fixed charges (Surtax)	32.6	28.9							No discrimination.	
			Price paid by Importers in Upper Volta:	163.1	144.4								
			ERD:	12.95	-	ERD:	13.7	-	ERD:	12.4	-		

*The effective rate of discrimination here is calculated as the percentage difference between the EEC tariff and the tariff rate applied to a third country, with the former as the base. Calculations were based on 1968/69 figures.

Source: Economist Intelligence Unit and Associate, A Study of Possibilities of Economic Cooperation between Ghana, Ivory Coast, Upper Volta, Niger, Dahomey and Togo, 1970, Vol. II, P. 491.

products (Table 6.4) there is very little prospect of Ghana being able to compete without being offered duties on exactly the same terms as the EEC. Of course, the actual level of tariff discrimination varies not only from product to product but also from country to country. In Togo, for example, there is no discrimination at all while the "effective rate" of discrimination is of the order of 14% in Dahomey (Table 6.4).

Having touched upon the present tariff structure in each state, we shall go a little further to examine the cumulative effects of the various duties and taxes imposed by the Entente on traded goods. To do this it seems more convenient to choose a commodity tradable between Ghana and the ECS and the EEC on the other; and then compare the tariff differentials. Garments fit this category of commodities very well. The tabular analysis is presented in Table 6.4

From the standpoint of discrimination, Table 6.4 shows that two tariff charges are mainly responsible. These are customs duty, which is uniform at 15% in all except Togo (10%), and fixed charges (surtax) - value - added tax in the case of Ivory Coast - on Ghanaian goods for which the average figure is around 30%. Again, Togo is the only exception, charging a non-discriminatory rate of only 17%. It therefore follows that any move towards the equalization of intra-regional trade opportunities in Central West Africa should concentrate on standardising the aforementioned two duties. But even so tariff disarmament issues - to which we shall return later (chapter 9) - are very sensitive and fraught with difficulties. Although it is theoretically easy to advocate tariff reductions in the interest of increased zonal trade, it is in practice difficult to formulate ways of ending tariff discrimination between economies that are not in an equal competitive footing unless one was sure that the "gaining" members would "recompense" the losers into a "unanimous" support for such a scheme.

B. INTERCOUNTRY SURVEYS OF THE SIX

Chapter two focused on the economic setting in West Africa in general terms without going into a detailed discussion of the economic profile of the individual countries. The present section of this chapter is intended to provide some basic information about the economies of the six selected countries. It is neither purely descriptive nor purely analytical, but tries to combine the two. Duplication and unnecessary statistics are avoided and only the essential elements, which are pertinent to later analysis, are highlighted.

1. GHANA (Table 2:1)

Until since the early sixties, Ghana had been the economic pace-setter in West Africa. During the early years of independence, which she was the first to attain in Africa south of the Sahara, Ghana enjoyed the highest level of GNP per head in the sub-region; her economy prospered as the emphasis on import-substituting policy of industrialization gathered force and her reserve position was admirable. However, this momentum of rapid economic development which had started to show could not be maintained after the mid-sixties. The level of public spending withnessed during the first half of the sixties fell beyond the capacity of the economy,[37] a situation which was not helped by the collapse of the world coooa market and the inadequate economic management which characterised this phase. In these circumstances, the government took a recourse to heavy external borrowings. The cummulative spill-over effects of these developments have affected current growth; it has been patchy and the rise in per capita income has slowed down or stagnated.[38]

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37. See, CBS, Economic Survey, 1965, P. 14.
38. CBS, Economic Survey, 1969, p. 104.

(i) AGRICULTURE (Table 2:5) Agriculture contributes just over 51% of the GNP and employs 61% of the total labour force, most of whome are subsistence farmers. About 22% of Ghana's land area is used for agricultural purposes but productivity is low and only a few farms operate on a large scale. By far, cocoa is the most important crop accounting for the employment of about 40% of the total working population; it is also the biggest cash crop and largest foreign exchange earner (Table 2:13). Indeed the dominant position of cocoa in the economy of Ghana coupled with the inherent price instability and volatility of the product in the world market places it in a position such that its performance in the world market sheds great influence on the economic performance of the country as a whole. This has been a cause for concern on the part of successive Ghanaian governments, particularly since the determination of the world price of cocoa falls outside their control.[39]

Apart from minerals (industrial diamonds, bauxite, manganese and gold),[40]

39. Developments in the cocoa market have often worried the Ghanaian authorities. Little progress has been made towards reaching an international agreement between the cocoa producer countries and the consumer countries, although negotiations are expected to commence again in the autumn (of 1972). (See Barclays International Review (BIR), June 1972, p. 8). The trouble with cocoa is that fluctuations, when they occur, could be very wide to throw the balance of payments situation out of gear. For instance, the year 1965 started with an average January price of £192 per ton. But, by Mid-July, it had reached its lowest ebb of £87½ per ton since the 2nd World War, representing a fall of over £100 per ton within six months (Economic Survey, 1965, p. 90). Similarly, while the average world price in 1969 was £422, in 1971 it fell to just under £250 per ton (West Africa, 14, Feb., 1972. p. 117). These fluctuations affect the entire economy through reductions in foreign exchange receipts, investment and maintenance imports and public revenue. In a bid to place the marketing of Ghana's cocoa on sounder footing the military government has announced that Ghana would henceforth market its own cocoa on the London Market. This terminates, after eleven years, the two sales agency agreements between the government and a United States and a German firm and a London office of the Ghana Cocoa Marketing Board is to be opened (B.I.R. op.cit. p. 8). But, although this may improve the marketing system, it is unlikely to stabilise the world prices which is the crux of the matter.

40. Of these gold is currently the most important foreign exchange earner but bauxite has the greatest potential. Oil was discovered off-shore at Saltpond in July 1970 but the evaluation of its commercial importance is still continuing and no definite conclusions have yet been accounced (B.I.R. Op. cit. p. 8).

other primary exports of any moment include timber and kola nuts. The former is another important source of primary wealth, second only to cocoa but the latter is traded only at the sub-regional level and its contribution to total export receipts is rather marginal. Coffee and rubber can be grown and crops like cotton, rice, maize, yams, cassava, tobacco, vegetables and kenaf need be expanded to cut down on imports. Imports of paddy rice amounted to 80,000 tons in 1971 and whilst the country's textile mills require about 12,000 metric tons of cotton a year, only some 10% of this is produced locally.[41] With respect to the expansion of rice production action is already being taken. Currently, a team from Taiwan has been supervising the start of a rice-growing project and it is hoped that Asian growing methods can be introduced into Ghana.[42]

Conscious of the agricultural potentials and needs, the military regime has declared the years 1972-74 as agricultural years and is to implement a crash programme known as "Operation Feed Yourself" with the aim of making the country self-sufficient in providing basic food supplies and in the production of the raw materials required by the industrial sector.[43] No doubt, the expansion and diversification of agricultural products augurs well for the economic recovery of

41. Ibid.

42. Lloyds Bank ltd., Economic Report: Ghana, Jan. 1971. p. 8.

43. BIR, op.cit. Indeed, the government has taken the view that Ghana's future growth rests very largely on the strength of the agricultural sector and has concentrated on developing it. With the assistance of the International Development Association (IDA), the government has launched a U.S. $15.6 million project to rehabilitate the cocoa industry which has suffered a decline since 1965. Under the scheme some 36,000 acres are to be replanted with high-yielding varieties and 51,000 acres are to be restored having suffered damage from disease. Also planned are the establishment of better credit facilities, training of farmers in modern techniques, improving of co-operatives and the establishment of fifteen new ones, and the improvement of farm maintenance (See Lloyds Bank Ltd. Op. cit. p. 9).

Ghana but the success of the new campaign will depend on the effectiveness of the measures, outlined elsewhere, which the government has introduced to back its agricultural policy. Meanwhile, a resuscitation and enlargement of previous trade in certain agricultural commodities with her immediate neighbours might prove advantageous to Ghana. Trade in agricultural food stuffs such as beans, onions and potatoes could be expanded and commercial exchanges developed with respect to maize and cotton.

As noted earlier, the main hinderances to trade generally between Ghana and her neighbours relate to high costs of transport and duties. Even so these obstacles are not insuperable. Given a more amenable system of tariffs and improved transport network, these impediments could be rendered inoperant; and, at least, in the short-run Ghana stands to benefit by importing beans from Upper Volta, onions from Niger, potatoes from Togo, maize from Dahomey and cotton from Ivory Coast and Dahomey, in all at cheaper prices than from sources outside the area.

(ii) INDUSTRIAL PRODUCTION: (Tables 2:4 and 2:5) Ghana's industrial sector has expanded steadily during recent years and Ghana exports more processed and semiprocessed goods than any other West African Country. In 1969 the gross output of manufacturing production accounted for over 11% of the GDP. But despite this development productivity remains low and unemployment is still a major problem.[44]

One of the key problems of industry in Ghana is that the majority of industrial concerns still require to import their basic raw materials - of course, this would cease to be a serious problem if there were enough foreign exchange to import them - and until these are locally produced, as many of them easily could be, the full benefits of the industrial sector to the economy will not be realised. The present level of under-capacity utilization, mentioned previously, will have

44. See J.L.S. Abbey, Population Growth and Problems of Economic Development, Staff Seminar Paper, No. 5, 1969/70, Department of Economics University of Ghana.

to be reduced.

The industrialization objectives of Ghana had been very succintly outlined in the country's most comprehensive development plan to-date, the Seven-Year Development Plan, 1963/64 to 1969/70.[45] There were:

(a) to produce domestic substitutes for imported consumer staples;

(b) to process agricultural and mining commodities before export;

(c) to start the development of machine manufacturing and the production of electrical equipment and electronics;

(d) to develop industries to serve Africa.

To achieve these aims import licencing, tax concessions, protective duties and other concessions were being used to assist the development of manufacturing industry. There was also a National Investment Bank and a Capital Investment Board to assist and encourage development.

Good progress has been made in pursuance of the above goals, although more could have been achieved had better economic management prevailed in the early sixties. Table 6:5 compares the increase in output from 1963 through 1968 by Sub-sector in the manufacturing industry. The figures in the Table show a steady upward trend and the growth rates of output in real terms are computed to be: 1% from 1964 to 1965, 12% from 1965 to 1966, 12% from 1966 to 1967 and 21% from 1967 to 1968.

The increase in the output of the industrial sector between 1963 and 1968 was £G63 million (NC126m.) but a considerable portion of this increase will have been due to price rises. This increase, however, fell short of the plan

45. Seven-Year Development Plan, Government Printer (Accra, October, 1963) Chapter 1

target.[46] The target of the Seven-Year Development Plan had been for an increase valued at £G98 million in the output of manufacturing industry (including gold refining and aluminium production) with imported materials supplying £G32,7 million of the raw materials. But as the difference between the expected and actual increase in manufacturing output shows, there was a wide expectation gap, even allowing for the early abandonment of the seven year plan.

Further afield, the study of the economy of Ghana in the sixties is full of ironies and contradictions. The two year that followed the attainment of independence (1957-59) were regarded as a period of consolidation, during which the first post-independence plan was formulated. This plan, intended to cover the years 1959-64, contained a programme of public investments but within two yearsof its launching it was shelved. This was due not necessarily because of any inability to carry it through but because of a fundamental change in the political and economic priotities of the ruling Convention Peopls's Party (CPP).[47] A radically different but all-embracing style of planning was evolved to reflect and embody a substially revised set of policy objectives. The outcome of this new approach was the launching in April 1964 of the Seven Year Development Plan. In many ways, the seven year plan had unique features.

Firstly, unlike all previous "shopping list" plans, it was very comprehensive "with a wide concern for the growth of the economy as a whole in contrast to

46. It is important to note that the 7 year Development Plan was scrapped well before the end of its terminal period on the groundsthat its projections and targe were over ambitious and unattainable. In fact, by the time the plan was discarded after the overthrow of the Nkrumah regime in 1966, it had become obvious that the plan targets were difficult to achieve and that it would be better to reconsider the entire plan.

47. See A. Killick and R. Szereszewski in P. Robson and Associate (eds) The Economies of Africa Allen and Unwin Ltd., London, 1969, p. 94. Also See CPP, Work and Happiness, Accra, 1964

TABLE 6:5

GROSS OUTPUT OF MANUFACTURING INDUSTRY: 1963-68

(IN MILLION NEW CEDIS) (NC/£ = U.S. $ approx.)

SUB-SECTOR	1963	1964	1965	1966	1967	1968
Food Industries	4.33	4.71	9.62	10.79	18.52	21.78
Drink	13.89	14.26	17.72	21.48	18.49	23.06
Tobacco	14.56	16.46	18.04	20.50	20.99	26.20
Textiles	1.74	2.55	3.97	7.00	15.29	25.76
Clothing and Footwear	3.32	4.36	5.84	7.06	11.32	21.32
Furniture and Fixture	2.79	3.48	3.06	2.90	2.35	2.36
Wood and Corks	20.17	21.59	23.35	22.71	23.65	24.39
Paper and Products	0.85	0098	1.42	2.81	4.98	6.15
Printing etc.	4.09	3.12	3.38	5.44	5.62	6.15
Chemicals	10.06	13.47	11.45	16.51	20.35	21.17
Petroleum Products and Coal	2.04	4.93	5.13	5.22	6.06	6.38
Rubber Products	0.53	1.44	1.99	1.53	1.58	0.24
Non-Metalic Minerals	1.31	1.09	1.44	2.97	3.39	9.25
Basic Metal	0.54	0.71	1.50	0.86	1.50	1.01
Metal Products n.e.s.	7.15	7.81	6.04	7.70	7.98	10.32
Transport Equipment	4.25	3.83	4.22	4.78	5.42	7.43
Miscellaneous	1.42	2.23	1.95	2.42	3.22	5.64
TOTAL	93.04	107.02	120.13	142.68	170.72	219.20
VALUE ADDED (TOTAL)	.....	59.1	69.5	85.1	97.9	118.7

Note: a = exeluding sawmills.

SOURCE: ECA, Summaries of Economic Data: Ghana, 1969

previous planning which has been largely limited to programmes of public works. and social development".[48]

Secondly, the seven year plan represented a clean break with pre-independence objectives. It was ideologically reoriented, away from a liberal-capitalist system, towards scientific-socialist type as emphasised by the opening sentence of the plan: "With this first Seven Year Plan Ghana enters upon a period of economic reconstruction and development aimed at creating a socialist society...".

Thirdly, in its fundamentals the operative strategy can be summed up in one word: "industrialization", the only qualification being the modernization of agriculture to give industry a flip.

Lastly, the plan appeared to reflect "too much of political excesses" and "too little of cool economic appraisals" and in the end the Nkrumah regime declined to accept the political discipline that serious development planning would normally entail, if there were to be a successful and an orderly implementation.[49]

The ideological orientation of the seven year plan was both its strength and weakness, and it was this too, that, ironically, killed it. The ideological distaste of Nkrumah's CPP for private enterprises, indicated in the foregoing paragraphs, meant an ideological reshaping of the existing capitalist set-up. Also it meant, in the circumstances of the political psychology of the CPP, a radical policy of industrialization. The accelerated, and sometimes badly planned,

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48. Seven Year Development Plan, Government Printer, Accra, 1964, p. 292

49. A Case in point was a decision a few weeks after the launching of the plan to sign a protocol with an eastern European Government for the construction of a N¢ 14 million "Olympic Sports Complex". If this had been carried out it would have been incompatible with the investment programmes of the Plan (A. Killick, et.al Op. cit., p. 98 (footnote).

programme of industrialization of the government imposed intolerable strains on the economy. The magnitude of these strains was such that by the closing days of 1964 the level of inflation and general dislocation of economic activities had quickly rendered the plan inoperable.[50] Import restrictions - imposed to permit the creation of yet more local industries - badly disrupted industrial production.[51] By 1966, when the effects had fully started to show, modern industrial output was a mere fifth of the single-shift capacity of installed plant.[52]

What is more! The poor performance of cocoa in the world market during the mid-plan period made things worse. The planners had based their calculations on an estimated average cocoa price of £250 per ton over the plan period but, as noted already, it fell to less than £90 by mid-July in 1965. The target growth rate of 5.5% per year over the plan period greatly diverged from the actual average growth rate of 2.1% between 1963 and 1965.[53] Thus, by the time the Nkrumah regime was overthrown the policy of rapid industrialization had in fact left serious industrialization bottlenecks, which impeded further growth, and, when the new regime came, they saw both political (because of its tendency towards "abrasive" capitalism - The New Statesman, Jan. 21, 1972) and sound economic reasons to scrap the plan.

The next two years (1966-68) saw a period of downswing in economic acticity, especially between 1966 and 1967. This is reflected in Table 6:5. While the rate of increase in the output of industry was 12% from 1965-1966, the figure for 1966-1967 was exactly the same.

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50. Ibid. P. 114

51. The introduction of import licencing, designed, in part, to ensure the optimum allocation of limited foreign currency earnings, achieved limited success, if any. Overt irregularities in the issue of import licences created shortages in essential goods (Economic Survey, 1965, p. 104).

52. Ibid.

53. The year-to-year growth rates from 1963 through 1969 were: 3.5% for 1963, 2.4 for 1964, 0.7 for 1965, 0.6% for 1966, 3.6% for 1967, 0.4% for 1968 and 3.4% for 1969.

The slow-down in economic activities arose out of the government's deflationar and rationalization policies ostensibly to check inflation. The government took advantage of this "economic interregnum" to prepare a Two Year Development Plan which was to raise the GNP to 6% per annum. Import licencing, tax concessions, protective duties and other concessions were being used to assist the development of manufacturing industry under the plan. There was also a National Investment Bank and a Capital Investment Board to assist and encourage development. In December, 1970 a five-year "rolling" National Development Plan covering the period to 1975 was launched. Like its immediate predecessor, the central aim is the acceleration of the rate of growth to a target of 6%, almost double the present growth record.

It follows from the foregoing that a good deal of planning and effort has gone into the development of manufacturing in Ghana but the behaviour of other economic variables, which have not particularly been amenable, have affected industrial production.

(iii) TRADE AND PAYMENTS: With a backlog of external debts totalling well over £350 million[54] coupled with fluctuations in foreign exchange receipts in the face of rising demand for imports, Ghana faces an extremely serious trade and payment problem. The settlement of current trade debts, even in the case of 180-day bills of exchange, are currently being met some months after due date.[55]

54. "West AAfrica", 28 January, 1972, p. 87

55. Ibid. The attitude of creditors to Ghana's plight has come under sharp criticism by "West Africa". The paper argues that in order to cover the cost of the credits and their risks suppliers have put up prices, some say by as much as 15%. The Ghanaian consumer has been living largely on expensive credit, supplied not only by overseas firms, but by insurance institutions like Britain's Expert Credits Guarantee Department (ECGD), which pay the suppliers if, after a specified period after 180 day credit is exhausted, Ghana still does not meet the obligation.

Towards the end of 1971 foreign creditors experiencing increasing delays for payments of goods exported to Ghana had started to express concern. The turning point came when on 5th February 1972, the National Redemption Council (NRC) of Col. Acheampong repudiated a US$ 94.4m (£37m) debt incurred to British companies under the Nkrumah regime. The NRC also rejected US$72m (£29m) of accrued interest on the debts up to February 1966 when Dr. Nkrumah was overthrown. It described these debts as "tainted and vitiated with corruption" (The Times, 7 February, 1972). Ghana's creditors quickly replied with a retaliatory move.[56] The British ECGD and other European government-backed credit institutions decided not to provide further cover for exports to Ghana.[57]

In the face of these difficulties, the NRC was compelled to tighten the system of import restrictions which the Busia regime had tried to liberalise. As demonstrated elsewhere, many commodities are now placed on the Banned List and very few remain on Open General Licence. Two different bodies have been set up to deal with essential imports not on Open General Licence. The Essential Commodities Committee imports and distributes essential consumption goods, mostly foodstuffs, some of which are subsidised by the State; while the importation of certain raw materials required by local industry is handled by a Central Agency.

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56. In the case of Britain, the ECGD stressed that its decision not to provide further cover for exports to Ghana was based on the steadily deteriorating trade situation and was not a retaliatory measure (See BIR, op.cit.p. 10). However, since trade deterioration in Ghana dates back to the mid-sixties and whereas the withdrawal of credit cover took place soon after the repudiation, it would seem that there is more to the British action than it is prepared to admit.

57. In a bid to stave off the unpleasant consequences of this measure, the Governor of the Bank of Ghana has had discussions in the U.K. and West Germany regarding credit insurance for future exports and financial support for the continued shipment of essential foodstuffs, machinery and raw materials for local industries (Ibid).

The effects of the measures are yet too early to evaluate since they were introduced a few months ago. However, given the amount of strain which a foreign-trade oriented economy can stand, the policy of import restrictions will pay off.[58] Of course, much will also depend on future export earning with particular reference to cocoa and government expenditure. If cocoa market slumps, as it often does, and if the government fails to ensure strict discipline on its own spending, then paper import regulations will achieve very little.

(iv) DEVELOPMENT PROSPECTS AND OUTLOOK: In recapitulation, the major economic problems facing Ghana are: (a) heavy pressure on foreign exchange exacerbated by a backlog of external debts; (b) the decline of agricultural production while the demand for imports of substitutable agricultural foodstuff and raw materials accelerate; (c) the co-existence of high level of urban unemployment with under-utilization of industrial capacity,[59] and (d) the instability and unpredictability of cocoa, the major foreign currency earner, which, to some extent, holds the economy to ransom. The future growth of the economy depends on how these key questions are tackled, whether the natural behaviour of the major economic variables is closely watched and whether the government can impart a contrived stability to otherwise unruly magnitudes.

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58. The enforced reduction of foreign trade often tends to seek other outlets. In the case of Ghana, the new measures have increased the level of smuggling from the neighbouring countries, especially Togo. The governments of Ghana and Togo have responded to this challenge. The first meeting of a new Ghana-Togo Joint Commission for co-operation was held in Accra on May 29, 1972. The two countries have agreed to examine various areas of co-operation, including trade with a view to stamping out smuggling (See Africa Research Bulletin, p. 2379A).

59. J.L.S. Abbey, op.cit. In 1970 the official estimate of unemployment was 600,000 persons in an economically active population of nearly 3.4 million. Although a more recent estimate is not immediately available, it is not strongly felt that the employment situation has radically improved to fundamentally alter the picture. A World Bank mission which visited the country the same year estimated that open unemployment had reached 30% of the labour force in urban areas and that urban population had grown at the rate of 9% a year over the past decade, a figure three times the national average (See Finance and Development, (9), March, 1972 P. 11).

To restore balance of payments equilibrium, particularly with respect to visible trade, requires action on imports and exports. In both sectors the room for manoeuvre is not very great. Ghana really faces a grim short-term situation which is not easily amenable to long-range plans, like a policy of export diversification, quite often advocated. On the other hand a stringent cut on imports and government expenditure can backfire in the short-run through the slowing down of economic activity and employment. Already, the desperate debt repudiation measure has boomeranged.

Another issue facing the government, on which may well depend the success of the "Operation Feed Yourself" campaign, will be whether the pool of unemployed urban population can be persuaded to return to the land.[60] As noted in the previous chapter, the drift of agricultural workers and school leavers attracted by higher wages and better facilities has become a serious matter for most LDCs. For Ghana large areas of urban density with serious housing problems, unemployment and poverty have been created whilst agricultural production has naturally suffered, resulting in imports of food and raw materials which could have been

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60. The question of returning the urban unemployment to the rural area is fraught with problems. One possible approach is to employ moral suasion through political speeches and propaganda. But this would be of doubtful consequence in a political system that guarrantees individual rights. Besides, the tendency to move to urban areas is a matter of self-interest, and few people can normally abandon their self-interest for social ends without a quid pro quo. However, it might achieve a measure of success if the government could convince the unemployed urban labour force that they would be absorbed once they went back to the villages. In that case a thorough-going rural development programme would be called-for-including investments in cottage industries, electricity, pipe water, clinics and the like - in order to reduce the relative attraction of urban areas. The Tanzania's "Enforced back-to-the-land Movement" represents another attempt to deal with the problems of urban unemployed. Under this scheme anybody who does not possess a stamped employment card in a town is sent to his home (rural) area. Aside from the cumbrous administrative questions involved, the success of the policy has been patchy. (See J.K. Nyerere, Socialism and Rural Development", Dar es Salaam).

avoidéd (BIR, Juhe 1972, p. 10). However, given the determination of the government to reactivate and expand agricultural production, food supplies and raw materials might increase. The expansion of the latter will not only stimulate industrial production but will also increase demand for labour and reduce under-utilization of capacity. From the standpoint of economic integration, the expansion of the domestic production beyond domestic demand points to the need for trade co-operation.

With respect to the crucial role of cocoa in the economy, entailing Ghana's dependence upon one crop for its economic health, a position of some danger is recognised. But the government has taken effective measures to reorganise the purchase and marketing of cocoa, to ensure a maximum return of foreign currency on the sale of this commodity. Although no international commodity agreement has so far been reached, efforts to reach one are continuing.

All in all, it must be said that Ghana's plight is obviously quite serious. But the new government is making a determined effort to find a reasonable and permanent solution to the economic malaise which has seriously retarded growth during recent years. The critical phase of readjustment required to restore the economy to a viable position is not going to be easy. Nonetheless, provided the cures applied to the economic malaise of the country are not worse than the disease itself, the government, can ride out the storm and restore the economy to its former healthy state but it has to count on the understanding and forbearance of external creditors.

2. DAHOMEY (Table 2:1 and map)

Dahomey is a long, narrow strip of land running north from the Gulf of Guinea with a coastline of 78 miles and covering an area of 43,232 square miles. Its size and population of 2.6 million condemn it to the status of a "mini-state"; and it is from this perspective that its economy can be properly understood.

(i) AGRICULTURE: Like other West African countries, agriculture is the hub on which the Dahomean economy revolves. It employs over 75% of the working population, contributes one half of the GDP and accounts for almost all exports. This is so, in spite of the fact that, during 1965-67, only one out of the nine million cultivable hectares was estimated to be actually used for agriculture.[61]

But in the teeth of this heavy dependence on agriculture, productivity is still very low. The relatively low yields are attributable to defficiencies in cultivation methods, and inadequate extension services, storage facilities, and marketing channels. The implied corollary being that agricultural yields could be substantially increased if modern techniques of farming, including the widespread use of fertilisers, were introduced. Aware of the potentials for expansions, the government with the assistance of foreign specialised institutions has undertaken to develop the cultivation of cash crops.[62]

Dahomey's main agricultural exports are palm products - which account for nearly 75% of all exports - followed by cotton, groundnuts, sheanuts, copra and

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61. I.M.F., Op. cit., p. 150.

62. Ibid, The government's agricultural policy seems to be paying off. Agricultural production in 1966 and 1967 showed record increases over the previous years. But the effects of uncontrollable variables, such as weather and soil factors, on agricultural output make it difficult to attribute increased production to policy o effects only.

coffee. Other agricultural exports include coconuts, tobacco, castor beans and kapok. The government's recent agricultural policy has had a two-edged contradictary effect on the economy. Although, in absolute terms, agricultural production expanded, during 1965 through 1968, this was in fact an expansion of agricultural exports, especially palm products, cotton and groundnuts, at the expense of staple food crops. Since the growth of both agricultural sectors is complementary and naturally reinforcing, policy measures should be directed towards balanced growth.

Of course, whether factors also play a part in agricultural production process. The effectiveness of policy measures is limited to the controllable, leaving the rest of the harvest of food crops by 10-20%.[63] Under normal weather conditions the production of food crops is sufficient for domestic needs but Dahomey imported in that year (1968) foodstuffs totalling 7 million CFA francs.

More recently, it has embarked upon a co-ordinated agricultural development effort. Two organs have been formed. The National Rural Development Agency is charged with the function of encouraging farmers in the area under its supervision to organise into cooperative to grow food crops; over 40 cooperatives were operating in 1968, while the Regional Rural Development Centre try to promote food crop production in the southern provinces, where improved cultivation methods are most urgently needed because of the rapidly growing population.[64] A substantial portion of the EEC assistance had flowed to agriculture. This assistance is of two types: (i) price subsidies for groundnuts, cotton, and grated coconut and (ii) support for structural improvements and diversification for oil palm products, groundnuts, cotton, coconuts, and coffee.[65]

63. Ibid. P. 152
64. Ibid.
65. Ibid. P. 157

Obviously, this support has helped agricultural production.

(ii) INDUSTRIAL PRODUCTION: If the palm oil mills and cotton ginning plants are excluded from consideration, industrialization is only beginning. The first census of industrial production of 1965 counted 39 manufacturing enterprises[66] which sold products worth 2,543 million CFA francs and employed 1,481 persons. The wages paid in 1965 totalled 320.6 million CFA francs. The division of products was as shown in Table 6.6.

Evidently, industrial activity in Dahomey has been confined mainly to the processing of agricultural exports. The small size of the internal market only allows the establishment of a very limited number of industries of a purely national character. Nonetheless, the period after 1967, has Seen the establishment of several new manufacturing plants. The most notable of them was the Kenaf factory which was jointly financed by an Italian suppliers' credit and the Dahomey government. At full capacity, this factory would employ about 1,200 workers and would produce 16,000 tons of Kenaf fibre and 5,000 tons of bags.[67]

Smaller industries include a plant for freezing shrimps, a clinker grinding, footwear, cycle and motorcycle assembly and a paint manufacturing plant. A foundation stone for a cement factory was laid in 1970 and new factories are planned. Mining activities are virtually non-existent. Small deposits of alluvial gold, however, were being planned on an experimental basis. Prospecting for other minerals continues. In February 1968, the Union Oil Company of

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66. Of this only 30 could be seriously regarded as good size firms; the figure rose to 36 in 1970, a sluggish rate of expansion (See Africa Research Bulletin, P. 2276B).

67. IMF, Op.cit., P. 162

California found petroleum deposits offshore, some 29 kilometres Southeast of Cotonou; work was proceeding toward their commercial exploitation. The results, so far, were considered sufficiently encouraging to justify installing a production platform.[68]

TABLE 6.6

Manufacturing Production in Dahomey, 1965

Subsector	Million CFA Francs
Agricultural industries	1,180
Bread, Flour, etc.,	96
Drinks	775
Chemical Products	138
Machinery and electrical	37
Hardware and metal products	21
Wood and furniture	29
Textiles	7
Printing	61
Construction Materials	146
Other	52
	2,542

Source: ECA, Summaries of Economic Data, Dahomey, 1970, p. 6

68. ECA, Op.cit. P. 2

Industrial investment in Dahomey had for sometime now been planned but the "expectation gap" between targets and achievements reveals the problems that bedevil development planning in LDCs. The first National Development Plan, 1962-65, provided for an average annual increase in GDP of 6.5%. But, like Ghana's Seven Year Plan for essentially the same reason, this plan was scrapped before its terminal date. It was abandoned in 1964 as it became evident that "the size of the proposed investment programme exceeded available resources and was not in line with the ability of the existing administrative structure to prepare and implement development projects."[69] The two main achievements of the plan were the launching of a palm planting programme and the construction of the port of Cotonou, completed in 1965.

The targets and projections of the Second Development Plan, covering 1966-70, are a lot more realistic than its predecessor. Its general goals are three-fold:[70] (i) increase and diversify the productive capacity, especially in the rural sector: (ii) balance the current budget by the end of the plan period and consolidate the floating debt of the Government; and (iii) lay the foundations for long-term growth within a framework of regional cooperation.

The Fiveyear plan envisages a modest over-all annual economic growth rate of 4%, based on an average annual increase of nearly 4% in agriculture, 8% in the secondary sector, and 3% in services. Although the 1966-70 plan was prepared as a comprehensive investment programme, including both the public and the private sectors, its targets for the private sector were only indicative. Thus when a shortfall in foreign financing occurred performance lagged behind

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69. IMF. Op.cit., p. 1666

70. See Dahomey, Le Plan de Developpment Economique et Social, 1966-1970

plan targets.[71]

Nonetheless, the 1966-70 plan cannot be fairly described as a complete failure. Far from that. Data on the implementation of the plan are not readily available. However, indications from partial data point to the conclusion that, although there is a considerable gap between plan targets and actual performance, tangible progress was made, particularly in agriculture. In 1967, as noted earlier, agricultural production targets were exceeded in cotton, groundnuts, sheanuts, kapok and foodstuffs. In fact, by 1970 the plan target for cotton production was raised from 14,000 tons to 18,000 tons.

In other sectors, notably fishing and manufacturing, production lagged substantially behind plan objectives in the first two years of the plan. Between 1966 and 1967 the short-fall in investment was so serious that the realization rate in manufacturing was a mere 26.3% and only 29% in infrastructure. None of the industrial projects included in the plan (a cement factory, textile mills, a brick-yard, and a groundnut oil factory) were established during the first two years of the plan.

It follows from the foregoing that much of the failure of the plan could be explained by financial constraints. The government, which planned to achieve a balanced budget by 1970 - it had in the past operated on budget deficits -

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71. The authorities had estimated foreign financing from official sources at CFAF 4.1 billion a year. Also the private sector was expected to generate an average annual investment of CFAF 2.0 billion over the plan period. Although these estimates were in line with the amount of foreign funds committed in the recent past, the amount of foreign assistance anyone country receives hardly correlates with what the country envisages as against the absorptive capacity and the attraction it offers plus the disposition of foreign financiers. The Investment Code of 1961 contains elaborate guarantees and concessions to foreign capital but political instability appears to have affected the confidence of investors. With an all African record of six military coups in seven years, it is difficult to see how foreign investment will remain unaffected.

implying a substantial cut in public spending had relied heavily on foreign financing. This source fell short of expectation and the second development plan fell short of expectation along with it. Even so, what the plan lost in the industrial roundabout it partly covered in the agricultural swings to bring the real growth rate of the GNP of 3.8% not far from the modest plan target of 4% in 1970.

(iii) TRADE AND PAYMENTS: For Dahomey external trade deficit is a common phenomenon. It is the rule rather than the exception under the present structure. The recorded balance of trade deteriorated persistently over the decade, 1959 to 1969. Reliable earlier figures are not immediately available but the figures for 1961 through 1969, shown below, demonstrates this trend.

Between the years 1959 and 1960, exports covered imports to the extend of

TABLE 6.7

Dahomey: External Trade Balance. 1961-69

(In million CFA Francs)

SUMMARY

	1961	1962	1963	1964	1965	1966	1967	1968	1969*
EXPORTS	3,581	2,700	3,155	3,254	3,367	3,585	3,859	5,503	3,055
IMPORTS	6,276	6,627	8,249	7,762	8,490	8,270	11,983	12,211	7,347
BALANCE	-2,695	-3,927	-5,094	-4,508	-5,123	-5,685	-8,133	-6,706	-4,292

*Figures for the first half of the year only.

SOURCE: ECA, Summaries of Economic Data, Dahomey, 1970 and IMF, Surveys of African Economics, 1970.

66%,[72] but this deterioration has exacerbated ever since and 1967 export earning financed just under a third of all imports (Table 6.7). In spite of the fact that 1968 was a record year for export receipts, they covered only about 45% of imports for that year. Of course, one qualification must be entered here. Until 1967, unrecorded trade was estimated at about 20% of recorded exports and 15% of recorded imports annually.[73] This high incidence of smuggling occurred, as noted elsewhere, because of the differences in custom duties and taxes, which were considerably lower in the neighbouring countries than in Dahomey. As a result of the changes introduced, in 1968, in the taxation and customs duty structure of the country, the incentive to smuggle has declined. It would, however, appear that radical measures rather than temporary palliatives are called for in dealing with smuggling in Dahomey.

One major anxiety in the trade picture of Dahomey is that the permanent deficit in the balance of trade is attributable not to massive importation of capital goods, as in the case of Ghana (capital equipment and raw materials represented 69% of imports in 1969), but to large-scale imports of ordinary consumer goods. Two import categories - food and beverages and other consumer goods (e.g., textiles and leather articles) - represented about 65% of the value of imports in 1968, compared with 59% in 1961. The two commodity categories accounted for only 29% of Ghana's import bill in 1968. For the cause of industrialigation in Dahomey, the prevailing composition of imports is a drawback.

With respect to balance of payments, foreign aid has been financing the deficits, thanks to France. Few countries would depend more on foreign

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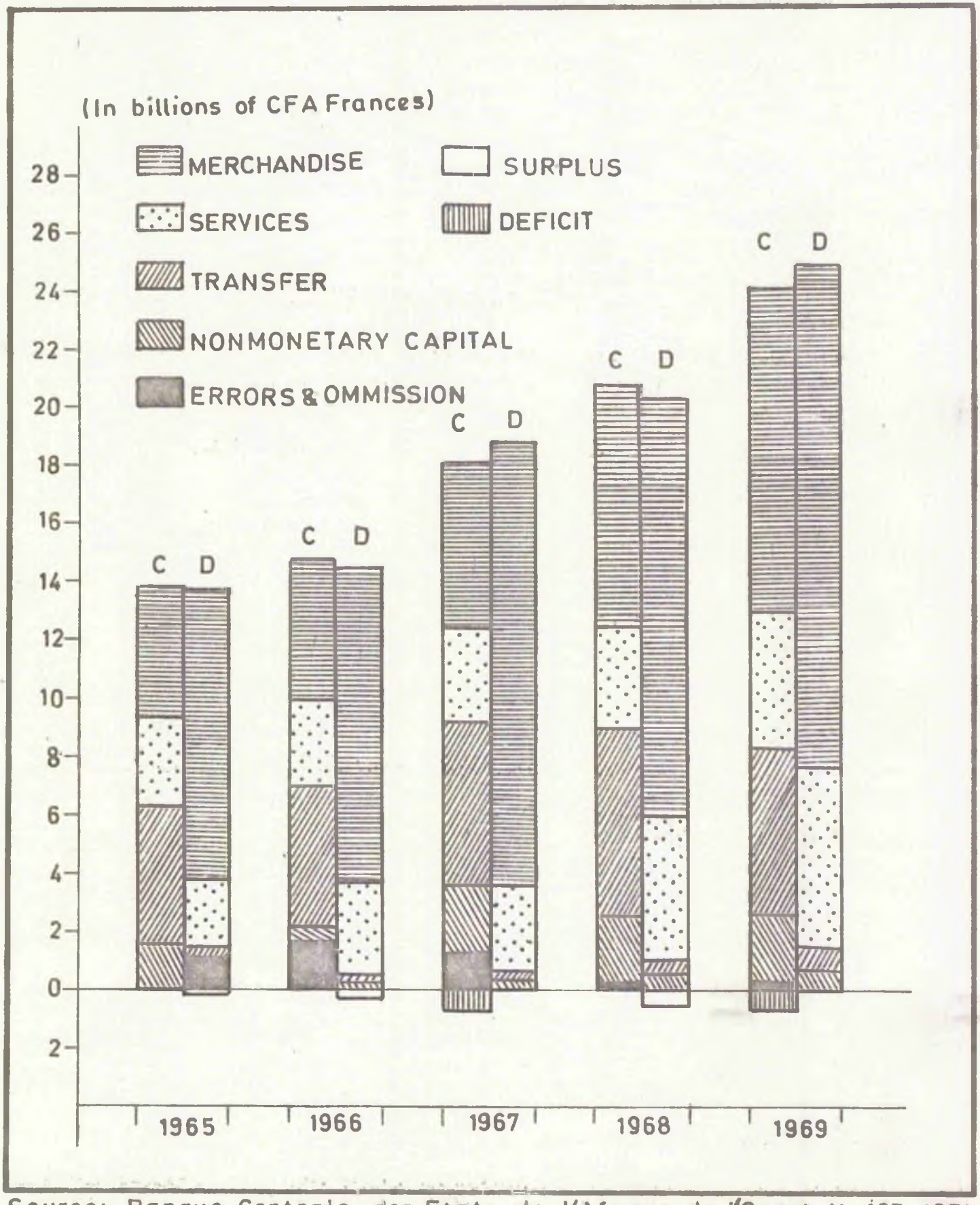
72. UN, ECA, Economic Bulletin for Africa, Volume VIII, 1971, p. 92.
73. IMF, Op. cit., P. 207.

CHART 1

DAHOMEY: BALANCE OF PAYMENTS 1965-69



Source:- Banque Centrale des Etats de l'Afrique de l'Ouest No.187, 1971

assistance than Dahomey. In the nine years from 1960 to 1968 the country received an annual average of 3,900 million CFA francs, representing about 8.7% of the GDP.[74] In addition to this volume of official external aid, the inflow of private capital over the same period averaged 1,200 million CFA francs plus a number of private transfers amounting to a yearly average of 2,700 million CFA francs. Thus, to a considerable extent, Dahomey's trade deficits were merely the counterpart of the fairly substantial inflow of net transfer payments and capital into the country.

Chart I provides a graphic illustration of the contribution of the various items discussed above to the Dahomean balance of payments from 1965 to 1969. As can be readily observed from the bar chart, expenditure on imports is the most intractable problem on the balance of payments account. Although export receipts showed a persistent upswing from 1965 to 1969, they still covered only about half of imports on the avergge during this period. Years of overall surplus alternate with those of deficit, the latter being greater in volume.

There is one salutary aspect of Dahomey's foreign debts. It is that most of its foreign assistance has been in the form of grants rather than loans. At the end of 1967, on the basis of commitments, Dahomey's external obligations amounted to 10.1 billion CFA francs,[75] of which 9.3 billion had been disbursed. Most of these consisted essentially of official debts owed mainly to France.

(iv) DEVELOPMENT PROSPECTS AND OUTLOOK: The key economic ills of the Dahomean economy are easily identifiable. The industrial development of the country is held up by the lack of natural resources, small size of the internal market and narrow export base. The tendency to push with development in the face of these difficulties has resulted in chronic budgetary deficits.

74. See S. Amin, "Dahomey: Economic", Africa South of the Sahara, 1972, Europa Publications Ltd., pp. 264-266.

75. IMF, OP.cit., P. 219. Still this is a heavy burden for Dahomey. Interest

Furthermore, there is a shortage of entrepreneurship and urban unemployment remains a serious social problem. Prior to independence, Dahomey provided civil servants to other French West African Countries who were repatriated after independence. The government absorbed a large proportion of the civil servants into the public sector; however, many repatriates remained unemployed. Efforts to redeploy some of the unemployed into other activities have met with little success as there is a general reluctance to accept agricultural employment. The government's virtual freeze on new recruitment in the public sector which began in 1966 - in a bid to cut down on administrative costs - and the continued migration from rural to urban areas, especially to Cotonou, have not helped matters either. In 1967, the estimated number of the urban unemployed was 10,000 persons; whilst the number of wage earners stood at 28,455, compared with a figure of 30,138 in 1965.[76]

The government of Dahomey is well aware of its immense problems but easy solutions are hard to come by. A programme of "ruralisation" has been launched to foster a reverse migration of the unemployed from urban to rural areas. An elaborate training programme in modern agricultural methods is being financed by the Aid and Co-operation Fund in co-operation with the UNICEF.[77] It is still too early to assess the effect of this programme on the "back-to-land" compaign but it seems unlikely to arrest the rural-urban migration trend.

And amortization of external debt represented some 14% of the country's earnings in year, 1967.

76. Ibid., p. 175. About 67% of total wage earners in 1967 were employed in the public sector, mostly in the central government.

77. U.N., Economic Bulletin for Africa, Vol. VIII, 1971, P. 94.

An attack has also been made on the chronic budgetary deficits by instituting austerity measures, even if this has boomeranged via deflation and rising unemployment. Dahomey's major donors have in recent years actively supported a policy of diversification to reduce the extremely high dependence on oil-product exports. But little progress has been made in this direction. More importantly, Dahomey actively seeks economic co-operation with its neighbours, if only to make a wider market accessible to its domestic producers.[78] However, in spite of all these efforts, the future of economic development and growth is replete with problems and difficulties. Internal resource base for development is poor. Even the available human resources cannot be fully utilised without a massive ingestion of foreign aid. In these circumstances, the rate of internal development will continue to be dictated, to a reasonable extent, by the volume of foreign assistance Dahomey attracts.

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78. Although Dahomey belongs to Francophone West Africa and is a member of the various organisations formed by this group (see chapter 6), it has recently started to seek effective trade links with Nigeria. On April 20 (1972), Dahomey received an interest free loan of £1 million from Nigeria, repayable in 30 years with a five year grace period. Part of the loan is tied to purchases in Nigeria (See Africa Research Bulletin, P. 2347).

3. IVORY COAST (Table 2:1)

The record performance of the Ivorian economy holds pride of a place not just in West Africa but on the African continent. The Ivory Coast "miracle", as it has come to be called, is all the more impressive because it has been achieved without reliance on mineral resources. Whereas other African countries, in a similar economic bracket, owe their growth to explosive foreign demand for minerals (oils, copper, iron,) from their sub-soil, the progress of the Ivory Coast rests primarily on political stability, economic liberalism with an open door policy on foreign investment and immigrant labour force, and a vigorous agricultural policy of expansion and diversification. Because of the agricultural base of the Ivorian "two decades of success", doubts are being expressed in certain quarters[80] whether the growth rate of 8 - 9% between 1950 and 1960 and 10 - 12% between 1960 and 1970[81] (in real terms the figures are slightly lower) could be sustained in the future by relying principally on agriculture.[82] In the succeeding sub-sections we enquire into the state of the Ivory Coast economy with a view to identify the growth-promoting and growth-thwarting factors in operation.

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79. See Samir Amin, The Development of Capitalism in the Ivory Coast, les e Edition de Minut, France, 1967. Also See The Financial Times, December 8, 1971 and West Africa, 14 July, 1972.

80. S. Amin, Op. cit.

81. H. K. Bedie, Ivorian Minister of Economy and Finance, "Realistic Policy for Growth", The Financial Times, December 8, 1971.

82. In spite of extensive surveys, no significant mineral resources have so far been discovered to enable the Ivorians to diversify their economy and put it on a more stable footing. A new campaign for copper and molybdenum prospecting was announced in 1970 and a meeting has been held with large oil companies for the purpose of petroleum prospecting (See West Africa, 14 July, 1972 and ECA, Summaries of Economic Data).

(i) AGRICULTURE: (Table 2:5): The contributions of other sectors notwithstanding growth over the past decade is firmly rooted in the performance of its agriculture and, for sometime to come, the country will continue to depend on agricultural exports, to a great extent, for its prosperity. The primary sector employs over 80% of the working population, accounts, for 85% of the value of total exports (nearly all this (80%) is earned by three commodities alone; coffee, cocoa, and timber)(Table 2:13) and, in 1965, contributed 42% of the GNP (Table 2:5). Above all, according to the Ivorian Chamber of Agriculture, agriculture-based industry produced 51% of the industrial sector's overall output in 1971.

Some features of import, which the agricultural sector of the Ivory Coast displays, help to explain its dynamism and expansion.

First, subsistence agriculture, livestock and fishing (including rice, maize, millet, plantains, yams, cassava, taro, meat and fish) make up about half of the output of the sector whilst cash crops and forestry (embracing coffee, cocoa, timber, bananas, palm oil, pineapple, kolanuts, and fruits) provide the other half.

The estimated annual increase in production of food crops between 1960 and 1968 is of the order of 3%[83] Although this barely keeps pace with the population growth rate of about 3%,[84] faster rates of growth have been recorded in respect of certain foodstuffs. The production of rice, for example, has more than

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83. During the period 1960-65 the agricultural sectors as a whole expanded at an annual rate of 7%: 3% for subsistence agriculture, 9-10% for agricultural exports and almost 20% for forestry (See Africa South of Sahara, 1971, P. 389).

84. The Ivorian birth rate was estimated in 1969 at 2.3% (Table 2:1). But is also calculated that some 40,000 persons migrate annually to the Ivory Coast so the actual growth rate is about 3% per annum (See ECA, Summaries of Economic Data: Ivory Coast, 1969, P. 1).

doubled between 1960 and 1968 (from 160,000 to 365,000 metric tons). But given the rapid growth of population and its changing distribution between cities and country, future demand for locally produced foodstuffs will grow rapidly. However, a review of the current food production set-up does show that a faster rate of growth would be possible if adequate incentives and assistance were given to the farmers. The existing setbacks, as identified,[85] are:- (a) farmers generally plant only enough for their requirements, allowing a small margin for emergencies; (b) many farmers in the south rely on coffee or cocoa for money income since these require less work than food crops; (c) most of the land available for expanding the output of food is in the northern and central regions, where, however, the population is sparse and many young persons migrate to the more prosperous south; and finally, (d) lack of outlets for agricultural surpluses in the north also discourages expansion of the cultivated area.

It is estimated that only about 10% of food produced in the Ivory Coast (except rice) is marketed[86] and this has often caused seasonal shortages in urban areas, causing wide fluctuations in prices. Happily enough, the Ivorian government recognises and tries to rectify the situation. A government body, the Agricultural Modernisation Agency, has been created with full powers to set up infrastructure, train farmers, provide seeds and fertiliser, and to arrange for collection, processing and marketing of agricultural products.[87]

The exports picture has also been good. The rapid expansion in production of the principal export crops - coffee, cocoa, timber and bananas - in 1960-64

85. IMF, Op. cit., P. 228
86. Ibid.
87. Ibid. P. 229

was obviously one important factor in the country's development of those years. More recently the expansion has generally slowed down and in 1970 export revenues, for the first time since 1965, actually dropped from 130,200 million CFA francs to 126,558 million CFA francs in 1971.[88] It must of course be emphasized that this drop in export earnings did not represent an overall decline in production. It was rather the result of a sharp fall in the world cocoa price.

The second notable feature characteristic of the Ivorian agriculture concerns its vigorous policy of diversification. The Development Plan, 1960-70 considered agricultural diversification as an essential requirement for raising standards of living and lessening the country's dependence on traditional exports. Diversification effort was concentrated on a few major products; oil palms, to provide new export products in future years; rice, to improve nutrition and eliminate costly imports; cotton and rubber, to supply domestic industries and for exports; pineapples, for both local consumption and export; and sugar, to satisfy domestic requirements. During 1960 - 66, however, investment in agriculture lagged behind plan targets. Of the 38 billion CFA francs planned over the plan period, only 11.1 billion CFA francs had been actually invested by the end of 1966.[89] Nevertheless, certain sections of the diversification programme were implemented with considerable success. The oil palm programme - largest project, under the agricultural diversification scheme - in particular, has proceeded well. Output catapulated from 22,800 metric tons in 1960 to over 63,000 metric tons in 1970. Production of rice, cotton and pineapple has also reached expected levels, but the sugar scheme has barely started.

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88. West Africa, July 14, 1972
89. IMF, OP. cit. P. 236

Lastly, the Ivory Coast government has actively embarked on a training programme in modern farming methods for young School-leavers. The Service Civique (the National Youth Service) modelled on the Isreal Nahal units was created in 1962 to serve as a "School of Modernism" for rural youths. Under this ingenious device rural youths are quartered in army-type camps located mostly in rural areas where they are taught, among other things, modern methods of farming. On graduation the young graduates return to their villages where each receives a cleared plot of land, prepared for sowing, from the Moteragri[90] (the State Enterprise Organ charged with extending large scale mechanised farming). This system has much to its credit. It is a direct effort to stem the flow of unemployed rural youth to the towns; it fosters greater utilisation of arable land in the sparsely populated and less favoured regions; and above all, it ensures that the skill acquired by the graduates are immediately put to good use. At the same time the Moteragri is assured of a permanent source of employment, and can depley its heavy and expensive equipment well in advance. Although this arrangement is by no means "error-proof" for mere lack of adequate supervision of the serviceman by the Moteragri could lead to inefficiency or liziness, yet the scheme represents a new dimension in the efforts of West African governments to encourage the youth to go "back to the land".

(ii) INDUSTRIAL PRODUCTION: While it is true, as observed earlier, that Ivory Coast owes much of its economic growth over the past decade to agriculture the most spectacular aspect of the so-called "miracle" has been the influx of foreign investment and the emergence of a light industrial complex centred chiefly around the capital of Abidjan. During the 1950s the chief impetus came from

90. See The Financial Times, December 8, 1971

public investment in infrastructure, which made up 50% of the total but, at the turn of the decade, the lead was taken by industrial investment when the proportion of industrial investment rose from 12% to 25% of all investment.[91] And between 1960 and 1966, total manufacturing production increased by about 25% annually with higher rates for wood industries (more than 30%); and other industries (38%). Over the decade, 1960-1970, industries share of the GNP rose from 6% to 16%, while the GNP itself grew by some 125%. The number of individual companies operating in the Ivory Coast rose from 180 to 335.[92] However, the annual rate of expansion was less than the overall average in the chemicals, oil and fats industries (19%) and in textiles (23%).[93]

Table 6.8 gives a general but clear picture of the rate of industrial expansion in sectors during the 1960's. It is clear from the Table that the largest relative increase occurred in the energy sector and the development of production at the Abidjan oil refinery, opened in 1965, was the major contribution Similarly, food, drink and beverages group has also done remarkably well.

It is generally agreed that the relatively large inflows of foreign capital has been the main factor in the expansion of manufacturing in Ivory Coast.[94] It is further argued that this inflow has been attracted by liberal tax and other benefits granted to approved industries under 1959 "permissive" investment code and by government participation in the capital of certain industries, especially those processing raw materials for export.

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91. Europa Publications, op.cit., P. 389

92. See The Financial Times, December, 1971. Also see Repartition Des Principals Enterprises Selon Leurs Activites En mars 1971.

93. IMF. Op.cit. P. 247

94. Ibid. Also see Afrisa, Annual Review, Africa Journal Ltd., 1972.

The net effect of the Ivorian pattern of industrial expansion has been to create a lop-sided industrial set-up, where foreigners have virtually monopolised the entire modern sector.[95] The situation has recently generated a measure of political and economic uneasiness. As the official party daily, and sole Ivorian newspaper[96] aptly put it: ". . . there are two distortions, which seem to us today too important and heavy risks for the present and the future to be ignored: these are the inequality among the regions and the weak representation of nationals in the industrial and commercial apparatus, for example, in the modern sectors of the economy where 95½% remains in the hands of foreigners."

In fact, Amin, who had earlier made a pungent criticism of the Ivorian economy, went a little further. In his book, "The Development of Capitalism in the Ivory Coast"[97] he denounced the Ivorian "miracle" as merely a form of "growth without development". No doubt, Mr. Amin might have overstated his case nevertheless there are sound elements of truth in his thesis. And the indignation and rancour which Amin's work triggered-off plus the acrimonious retort it received from the Ivorian government had done very little to detract from Mr. Amin's central tenet.

In a very simplified form, what Amin is saying is, given the country's over-dependence on agricultural export earnings, the over-dependence on foreign

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95. It is estimated that about 95% of the modern sectors of the Ivorian economy are in foreign hands (see Fraternite Matin, June 9, 1971).

96. Ibid.

97. Samir Amin, op.cit., Mr. Amin's thesis set off an emotional thunderstorm in the Ivory Coast and for a while the book was officially banned. At one stage the Ivorian Minister of Planning wrote a rebuttal (see The Financial Times, December, 8, 1971 and West Africa, 14 July, 1972).

capital, the growing import needs of the light industrial sector and the volume of foreign exchange required to finance the repatriation of profits, it is unlikely the economy will continue indefinitely to generate enough exchange to meet its requirements at its present rate of expansion. He foresees a fall off in foreign investment in the future, asserting the economy was already beginning to show signs of a slow-down.

Ivorian officials do not share Mr. Amin's gloomy forecasts. They maintain, and marshall the statistics in their support, that the debt payments are well within the absorptive capacity of the economy. M.H.K. Bedie , the Finance Minister has repeatedly stressed that the national debt co-efficient was only 4.9.[98] As for such slow-down signals like the recent shortfalls in export receipts (from 130,200 million CFA francs in 1970 to 126,558 million in 1971), the government does not conceal the figures but it argues that the decline was due to a fall in world prices for cocoa and coffee, the principal exports of the country. Even so the drop has not badly affected the balance of trade.

However, polemics apart, the truth of the matter regarding the state of the economy of the Ivory Coast is that the government is well aware of most of the "danger signals" hinted by Mr. Amin. And it is certainly not complacent about them. Already the Ivorian government is cautiously moving towards breaking French monopoly in several areas.[99] Meanwhile, new state enterprises for

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98. West Africa, 14 July, 1972. In 1970, national debt payments represented 6.2% of exports of goods and services (Financial Times, December 8, 1971).

99. It must be emphasized that the Ivorian government favours a policy of "friendly persuasion" in order not to frighten off foreign capital. The elite and the youth of the country would prefer a crash Africanisation programme but the government resists this urge (The Financial Times, December, 1971).

transport and marketing have been created. From now on bakeries would be reserved exclusively for Ivorians and new timber concession will be granted to nationals only. More or less, Ivorianisation is a main pre-occupation in the country to-day and the government now insists on local participation however small - in most new projects except the big ones.

In addition to Africanization, which encourages local saving and channels it into the domestic economy to reduce the country's dependence on outside capital, the government gives high pirority to building up exports as a source of foreign exchange. This is seen as a further means of decreasing reliance on external capital. To this end there are plans for a pulp industry, motor tyre production, manufacture of light electronic equipment and synthetic fibres for sale abroad.[100] It is recognised that a more export-oriented industry could be best achieved by signing bilateral agreements with neighbouring countries[101] and by developing exporting industries with a large local manpower input.

On the whole, it seems clear from the foregoing that some of the criticisms of the Ivorian industrialization are true. But there is no reason to suppose that the primary export problems of the Ivory Coast are any different from those of most LDCs. It is true that financial strains are likely to develope over time; they might not fundamentally threaten the economy. It might slow-down but a breakdown is difficult to contemplate in the immediate future.

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100. IMF. Op.cit., p. 248. See also Plan Quinquennal de Development Economique, Social et. Culturel, 1971-1975, Ministere du Plan, Republique de Cote D'Ivoire.

101. It is against this urgent need for market expansion in individual countries that the issue of market integration in West Africa has to be viewed. It is not so much that the basis for market integration is lacking, at least not in the long-run, but that the spirit of commitment to the idea of integration, if anything, is tenuous.

TABLE 6.8

IVORY COAST: INDUSTRIAL PRODUCTION 1960-69

(in Million Francs CFA)

	1960		1965		1968		1969	
	OUTPUT	VAD	OUTPUT	VAD	OUTPUT	VAD	OUTPUR	VAD
Food, drink & Tobacco	4,549	1,868	12,820	4,776	21,170	7,461	25,138	9,705
Energy and Water	2,463	2,082	6,719	4,939	18,812	14,012	20,346	15,171
Mining	1,208	949	1,808	1,357	1,338	872	1,469	995
Metal industries	3,655	1,828	10,428	3,999	14,546	5,511	17,494	6,867
Wood Industries	2,352	1,024	9,070	3,860	10,113	3,659	11,135	3,895
Building and Public Works	14,157	7,189	28,326	13,385	37,500	17,929	43,219	21,979
Textiles and Footwear	5,086	3,078	9,257	4,834	15,988	8,004	18,087	9,104
Chemicals, Oil and fats	3,028	1,056	6,642	1,968	9,420	2,817	10,412	3,496
Other	1,155	803	2,192	1,472	3,464	2,110	3,859	2,353
TOTAL	37,653	19,817	87,262	40,590	133,351	62,375	151,159	73,565

Note: Output = Gross Output; VAD = Value added.

SOURCE: ECA, Summaries of Economic Data: Ivory Coast, 1969, P. 8

(iii) TRADE AND PAYMENTS (Chart 2): In spite of its very rapid growth during the past two decades, the Ivory Coast economy has experienced no serious external payments problems. The reasons for this, some of which have been outlined already, are that development policies focussed on expanding the export sector, the attraction of foreign capital, the establishment of favourable investment climate and, perhaps, to a lesser degree, on the automatic convertibility of the CFA franc into the French franc . Thus, in an era that elsewhere in Africa has been marked by disappointing results on the economic front, the Ivory Coast has had a very different story.

But there is the reverse side of the coin. The Ivory Coast has had to finance a growing volume of capital imports as its new industries increase in their size and repatriate their profits.[102] Today, the principal features of the Ivorian balance of payments are the relatively large surpluses on trade and nonmonetary capital transactions and the large deficits on services and unrequited transfers. During the period, 1963-69 there was an overall surplus in the balance of payments on a year-to-year basis, except in 1967.[103]

Between 1963 and 1964 trade surplus approximated the deficit in services and unrequited transfers and the overaall surplus was proportionate to the net inflows of nonmonetary capital. Because of the collapse of the cocoa market in

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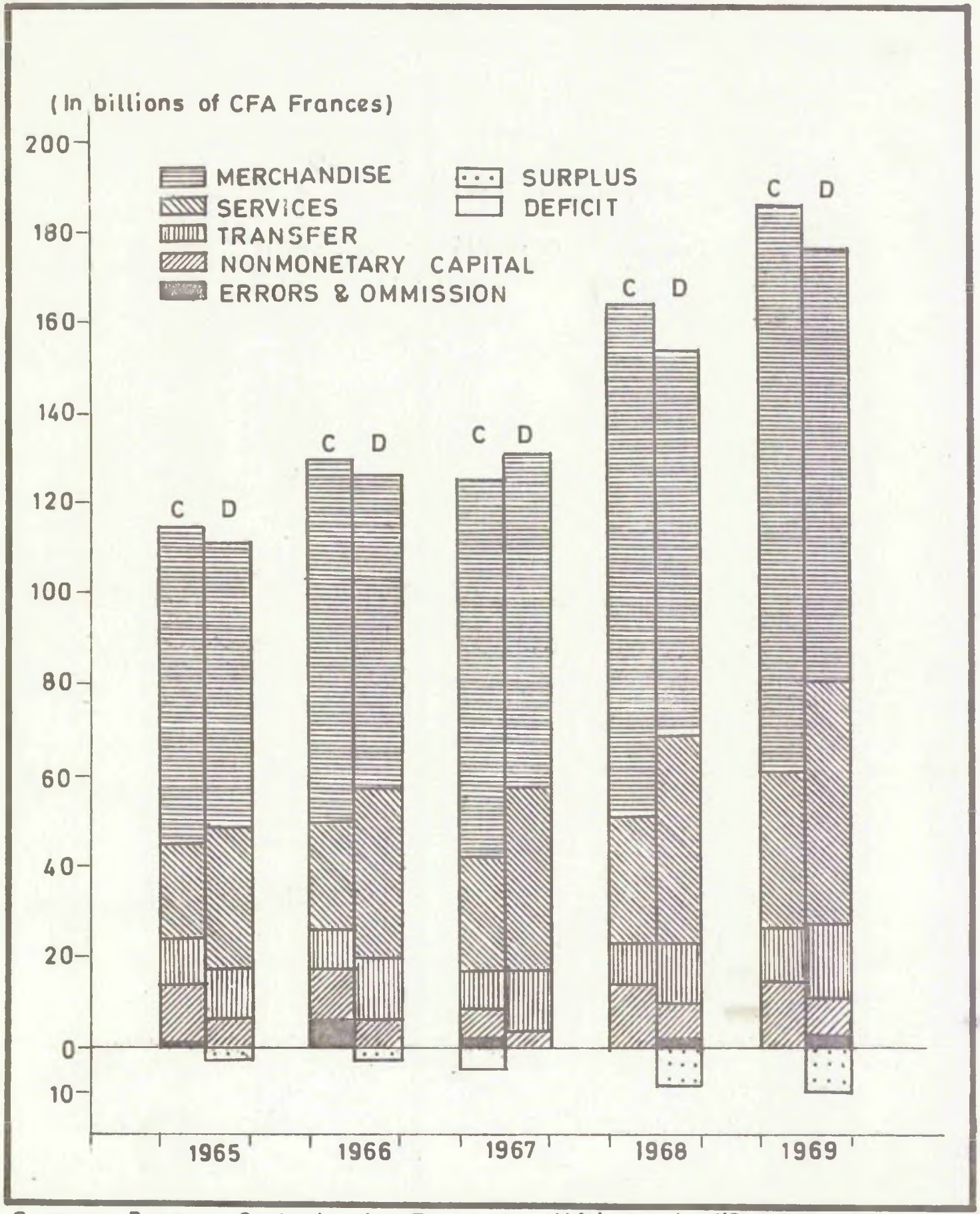
102. The sum of industrial profits and personal savings transferred back to France (and there are nearly three times as many French people in the country today as before independence) from the Ivory Coast annually is estimated to be of the order of 40 CFAF billion (£58 million) or the equivalence of some 15% of GNP. (The Financial Times, December 8, 1971), Another calculation shows that for each 100 CFAF of French Official aid, the private French businessmen take out of the Ivory Coast between 80 francs to 150 francs (See West Africa, July 14, 1972). Currency transfers until recently was free, but since April 1972 certain restrictions have been imposed in a bid to check this financial haemorrhage.

103. IMF, Op. cit. P. 304.

CHART 2

IVORY COAST BALANCE OF PAYMENT 1965-69



Source:- Banque Centrale des Etats de l'Afrique de l'Ouest No 182, March. 1971.

1965, the trade surplus for the year declined. The deficit in services rose, leaving a deficit in combined goods and services and a sharply reduced overal balance of payments surplus. Chart 2 offers a diagrammatic illustration of the balance of payments trend from 1965 to 1969.

There was a considerable recovery in the balance of trade in 1966 but it was not sufficient to offset growing deficits in services and unrequited transfers and a decline in nonmonetary capital inflow; therefore the balance of payments surplus remained small. The overaall deficit in the balance of payment for 1967 resulted from the decline in the trade surplus, together with continued trends in the movements of other elements. In 1968 a record trade surplus (25.7 billion CFA francs), together with a larger inflow of nonmonetary capital (6.6 billion CFA francs), produced the over-all balance of payments surplus of 8.7 billion CFA francs, even with slightly greater deficits in the other elements (16.7 billion CFA francs in services and 5.4 billion CFA francs in unrequited transfers.) The surplus figure on balance of trade for 1969 stood at 32.0 billion CFA francs, exceeding that of the previous year by 6.3 billion CFA francs. Hence the 1969 over-all surplus on balance of payments reached the 10 billion CFA Francs mark.

Evidently, it is clear from the foregding that the Ivorian economy so far has had no trade and payments problems but the present order of things poses some danger for the future.

(iv) <u>DEVELOPMENT PROSPECTS AND OUTLOOK</u>: Ivory Coast has not lost its momentum of economic boom. Yet the country finds itself today in a somewhat complex situation. After years of admirable performance the government naturally does not wish to see the economy slow down. But it can only continue to grow by

attracting more foreign investment, by depending on immigrant labour force, and by reliance on agricultural exports to generate the foreign exchange required to finance the large volume of foreign factor income transfers. Above all, urban unemployment, which hitherto was unknown, is becoming a problem in Ivory Coast.[104] As demonstrated earlier, the government of the Ivory Coast is well aware of these future problems and is certainly not complacent about them. The key question is whether or not the policies pursued with respect to these issues would yield the desired results to permit the economy maintain its momentum of expansion uninterrupted.

The policy of "Ivorianisation", which aims at increasing the role of the indigenous population in the economy so overtly dominated by the foreigners has reserved some agricultural and service sectors exclusively to Ivorians. It is expected that this will stimulate local saving and investment. Also the building up of exports, including manufactures, as a source of foreign exchange has received top priority in the 1971-75 development plan. An attack has been launched on urban unemployment through the ruralization scheme of "Service Civique", increased technical training and on- the-job training programmes but the immigrant labour force in the Ivory Coast complicates the employment picture.

Although official figures are not readily available, there is a large number of seasonal and permanent migrant workers residing in Ivory Coast. Modest estimates have it that almost a third of the country's population is foreign.[105]

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104. IMF, Op.cit. P. 259. The available estimates indicate that employment has been increasing less rapidly than GDP in recent years, owing chiefly to capital intensity. Although GDP rose by an average of more than 10% a year during 1960-66, the total number of wage earners rose by only about 5% a year.

105. Europa Publications, op.cit. P. 389. Also see West Africa. 28 July, 1972. The number of foreigners in the country includes between 750,000 and 1 million Voltaics, 250,000 Guineans, about 200,000 Ghanaians and over 50,000 Malians.

The majority of these are migrants - about 1.5 million strong - chiefly from the Mossi districts of Upper Volta, and they have provided vital manpower for the plantations and newer urban activities. About half the population of Abidjan is said to be foreign with the result that a certain level of unemployment exists in the towns among unskilled workers, whilst shortage of skilled workers continue.[106] The official policy towards alien workers is very liberal.[107] Work permits, though required for all foreigners, and generously given. However, the Ivorian citizens are increasingly growing jealous of the alien work force in the face of rising urban unemployment and inflation.[108] The alien element in the Ivorian economy poses a real test for the government. It cannot easily resort to the simple, and perhaps naïve, device of mass explusion, which would be counterproductive as in the case of Ghana, nor turn a blind eye to the "itchings" of unemployed nationals. Obviously, a blend of "protective" restrictions and accelerated job creation through economic expansion would seem a better solution.

On the whole, the economy of the Ivory Coast should continue to enjoy its present prosperity, even if on a declining scale, provided the major bottlenecks in the path of the future growth, which we have identified, are smoothed over before long.

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106. IMF, Op. cit., P. 260.

107. This is basically due to their importance to the economy since they supply some two-thirds of the planation labour force. Indeed, it was in recognition of this hard fact that the Ivorian Head of State, President Houphouet-Boigny proposed, at one stage, to establish the dual nationality for citizens of the Entente-States. His offer, however, was rejected by the members for fear of losing their own citizens, and the revenues "injected" into their poor economies from money transferred by the migrant workers to their families back home. (See T.K.Golan, Ivory Coast: "The Importance of Agriculture", West Africa, 28 July, 1972.)

108. Lloyds Bank Ltd., Ivory Coast Economic Report, February 1971, P. 11.

4 NIGER (Table 2:1)

Niger, the largest state in West Africa with about twice the size of France, scarcely seems economically viable. It is landlocked. And its sparse population of 3.9 million is largely explained by its geographical aridity and remoteness. Over 2/3 of the country is steppe and desert, most of the north-east being uninhabitable. Hence the bulk of the population is concentrated in the south, along the Nigeria-Dahomey border.

(i) AGRICULTURE: (Table 2:5). Traditional farming and stockrearing generates over 60% of the GDP as well as more than 90% of the country's export receipts. About 80% of the population are farmers, the majority of the remainder being Fulani or Tuareg stockbreeders.[109] But for all this, the cultivated land represents a meagre 3% of the state's area.

Food production occupies most of the cultivated land, about 90%. The most important ones are millet, sorghum and beans. Others are cassava, rice, onions, sugar-cane, potatoes and maize. Production of these crops is usually adequate for domestic needs and, in good years, small quantities of millet, sorghum, and beans are available for export.

On the export side, the dominant products are shelled groundnuts, cattle and groundnut oil. Groundnuts are the principal cash crop but they are also used as food. The locally consumed portion is of the order of 18% of total output. Shelled groundnuts and groundnut oil furnish about 75% of the export earnings.[110] Over the past decade the growth of groundnut production has averaged around 7% per

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109. Europa Publications, op.cit., p. 540. Livestock is estimated in 1970 at 4.5 million cattle, and 9 million sheep and goats. Extensive stockrearing is making appreciable progress, having been stimulated by demand from the high-populated coastal region, southern Nigeria and Dahomey.

110. IMF, Op. cit. P. 406.

year but aggregate farm output has increased at an annual average of 3% only! Cattle exports to neighbouring countries (Nigeria, Ghana and Dahomey) account for 15% of recorded exports.[111] Cotton cultivation, though gaining in importance during recent years, contributed only 3% of total export earnings in 1967-68.

Mining is another primary sector that is becoming important. Until recently the only minerals exploited were cassiterite, gypsum, limestone, silica, and gold. But these too have so far made a negligible contribution to the GDP. Very recently, however, uranium was discovered at Arlit by the French Atomic Energy Commission and plans were made to start production at the mine by 1971, with initial output reaching 750 million tons and perhaps 1,500 million tons in 1974.[112] With 64% of the earned profits going to the government, it is now an important source of revenue for the country. Niger's proven uranium reserves will make her the fourth world producer of this mineral.[113]

(ii) INDUSTRIAL PRODUCTION: Industry plays a small part in the Nigerien economy. Manufacturing countributes less than 10% of GDP. The government's policy of encouraging industrialization began during the First Development Plan (1961-61) when 57% of the total investments went to basic infrastructure improvements.[114] Subsequent development plans (the 1965-68 and 1968-72 ones) also placed a great premium on industrialization. But by 1966 there were hardly more than 17 manufacturing enterprises of any consequence, comprising 7 agricultural and food processing plants, 3 chemical ones, 3 for mechanical and electrical equipment and 4 for printing.

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111. Ibid. P. 422. The introduction of an export tax of 10% on the assessed value of cattle has reduced recorded, and increased unrecorded, exports. It is estimated that only about a third of all cattle exports are actually recorded.

112. Europa Publication, op.cit. P. 540.

113. Africa Research Bulletin. P. 2181A.

114. IMF. Op. cit. P. 443.

Industrial growth appears to be impeded principally by the limited size of the domestic market and competitive difficulties from imports and from newly established industries in neighbouring Countries. For example, the Malbasa cement works - the largest industrial enterprise in the country - operates at less than full capacity. Although annual capacity is 30,000 tons, production has been about 20,000 tons.[115] The low utilization of capacity limits the operation of scale economies and increases the unit cost.

In addition to narrow domestic market-base, Niger has other problems, particularly with respect to transport. Production in excess of local consumption cannot be sold in neighbouring countries because of high transportation costs, not to mention competition from low-cost producer neighbours. Most of Niger's foreign trade is transacted through the ports of Cotonou in Dahomey and Lagos in Nigeria. Lagos forms the natural outlet for the trade of South-Central and Eastern Niger because this route offers cheaper transport costs than shipment via Cotonou.[116] Also, in 1959, a common venture - the Dahomey-Niger Railway and Transport System - was formed to handle the transit trade of both countries, which also subsidised it. These arrangements, however, have solved the problem of outlet without solving the crucial problem of long haulage costs.

In these circumstances, Niger's industrial achievements have so far been very modest.

(iii) TRADE AND PAYMENTS: As noted elsewhere, Niger's foreign trade is only partially recorded by the authorities due to smuggling and difficulties of

115. Ibid., P. 429

116. Ibid., p. 434. In 1968 more than 2/3 of Niger's exports were transported through Nigeria.

border policing. This renders the existing statistics patchy and incomplete.[117] Nevertheless, recorded trade indicates that exports grew over the past decade (1960-70), at an annual average of 5.5%. Over the same period imports outstripped exports, increasing at 7.5% per year.[118] The growing trade deficit has been met by increasing foreign contributions.

Few countries could depend more on external financing than Niger. Between 1960 and 1968, official aid totalled 29,000 million CFA francs (a yearly average of about 3,700 million). This includes project aid, budget subsidies from France and the Conseil de L'Entente, technical assistance and price support measures for groundnuts and cotton introduced by the EDF to aid crop diversification. The one salutary aspect of this relatively large volume of foreign aid is that the bulk of it is in the form of grants; hence the public foreign debt has remained fairly manageable.[119]

The topography of Niger seriously affects its balance of payments. Whereas Niger is a landlocked country, transportation and insurance costs represent a heavy burden on the balance of payments. The country relies chiefly on foreign aid and grants to offset the persistent deficits on goods and services account. This reliance has so far paid off but it cannot be denied that the country's balance of payments base is far from secure.

(iv) DEVELOPMENT PROSPECTS AND OUTLOOK: Nearly all Nigerien public investment is financed by foreign aid. Local private capital finances mainly a fraction of the building of homes and various transport needs (namely lorries). In spite of Niger's 1961 liberal investment code, and unlike the Ivory Coast,

117. Ibid. p. 484.
118. Europa Publications, Op.cit., P. 542
119. IMF, op. cit., P. 495.

foreign capital has not been forthcoming, except for the mining of uranium, owing mainly to the unprofitability of industrial ventures in the country's basic conditions.

In the past, Niger, as already noted, had been lucky in one respect. Almost all foreign aid, until recently, had been supplied in the form of grants so that the debt burden remained slight. At the end of 1966 foreign debt amounted to less than 6% of the GDP, whilst current interest repayments accounted for a mere 3.5% of export receipts. However, there has been a tendency, in the last few years, to resort to costly public private loans (commercial credits).[120] This has weakened public finance and, thanks to income from uranium.

Indeed, faced with adverse geographical factors, the future of Niger invariably hangs on the exploitation of its uranium reserves and, possibly on the discovery of other minerals. The present prospects for a rapid economic development appear to be minimal. And the Sahel drought has further aggravated the situation. The virtual collapse of much of the subsistence sector has been accompanied by a projected 25% decline in population, due both to death [illegible] as a result of famine, and to large-scale migration to the south into Nigeria and Dahomey.[121] Evidently, the effects of this devastating drought are likely to be felt for many years to come.

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120. Europa Publications, Op.cit., p. 542.

5. TOGO (Table 2:1)

Sandwiched between Dahomey and Ghana, Togo is a tiny strip of land nearly 400 miles long. At its widest, it extends to about 100 miles. It comprises no more than the eastern ⅔ of the pre-1914 German colony of Togo which was, until independence in 1960, administered by France. Divided into the East and West in the colonial scramble, Togo is divided into the north and south by its geography and population of 1.8 million. With the concentration of population and economic activities in the south, this has a profound influence on the economic and political life of the country.

(i) AGRICULTURE: Like other African countries, agriculture is of foremost importance in Togo. About 78% of the economically active population is estimated to be engaged in agriculture, mostly as self-employed workers; and the value of agricultural production (including the output from animal husbandry, fishing and forestry) accounted for 43% of the country's GDP in 1969 and for ⅔ of its exports - although only some 20% of the land area in Togo is cultivated at any one time.[122]

Food crops - cassava, yam, rice, maize, beans, millet, and sorghum take up approximately 85% of the cultivated land; the rest is devoted to industrial or export crops - cotton, groundnuts, coffee, and cocoa. With the exception of yam, the output of food crops has in recent years risen quite considerably. Over-all production of food crops generally satisfies domestic consumption and provides some surplus of maize, cassava, yams and sorghum for export - mainly to neighbouring Ghana, Dahomey and Upper Volta.

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122. IMF, Opcit., p. 618.

The only exception is rice, which at present is an expensive import.[123]

Coffee, cocoa, and palm kernels are the principal export crops. Other crops include groundnuts, cottom, copra, caster beans, sheanuts and kapok. The real rate of growth for exports over the period 1920 - 1969 was about 2.5% a year. But this growth was largely achieved between 1948 and 1960, with an annual average growth rate of 7%.[124]

However, export trade has continued to grow since 1961 chiefly because of the lucky discovery of phosphates at Akoumape, with reserves of 100 million tons. Production exceeded 1,350,000 tons in 1968 and represents 45% of Togo's experts. Other Togolese minerals, including new finds are iron ore with reserves of 500 million tons, bauxite with reserves of 1 million tons and the same total for chrome-ore, dolomite and limestone. An American Company, The Frontier Togo Oil Company has had encouraging results in its search for oil. Also in 1969 copper/ sulphide deposits were found in the Paline region. But further test work explorations were continuing to ascertain the commercial profitability of the finds.[125]

The relative importance of mining has increased over the past decade; it contributed more than 6% to GDP in 1969, and may well provide a suitable launching-pad to faster rate of economic development.

(ii) INDUSTRIAL PRODUCTION (Table 2:5) Togo has almost the same economic structure as its next door neighbour, Dahomey. Industrial and commercial activity on modern capitalist lines is still very limited. Even so, manufacturing in 1969, contributed 10% of the GDP, compared with 6.6% in 1964 (Table 2:5).

123. Jeune Afrique (ed.) Africa, 1971, Africana Publishing Corporation, New York,, P.396.

124. Europa publications, op. cit., P. 848.

125. See ECA, Summaries of Economic Data: Togo, 1970, P.2 also see Jeune Afrique, Op. cit. P. 394

Manufacturing is geared both towards exports, with edible oil plants, coffee processing units, and cotton ginneries, and towards home markets demand (footwear, soap, textiles, ready-made clothes, plastic goods, pharmaceuticals, pesticides, washing machines.)

More rapid industrial growth in Togo, as in Dahomey, appears to be frustrated mainly by the limited size of the domestic market and the difficulty of selling in neighbouring markets because of competition from imported goods and from newly established industries in those countries. Poor infrastructure has also impeded greater economic activity, especially in the mining sector.

Planning is seen as one of the essential instruments of development, although Togo entered the sphere of planning late compared with most African countries. Togo's first Five-Year Development Plan (1966-70), which was approved by the National Assembly in July 1965, came into operation in 1966. Its three key priorities were: "to ensure national independence, to establish the structural basis for development, and to take both immediate and long-term actions which will eliminate disequilibria and promote expansion."[126]

In order to attract foreign and domestic private investment, an Investment Code was promulgated on July 21, 1965. The Code embodied not only generous offers to prospective investors but also contains special tax benefits for newly established "priority enterprises". Actual investment during the plan period really exceeded the plan target. As of June 1969 a total of 29.5 billion CFA francs had been invested, a figure clearly in excess of the total planned investment of 28.6 billion CFA francs. Most of this sum went to the financing of infrastructure, especially the construction of the deep water port of Lome,

126. IMF, OP.cit., P. 640

completed by 26 April, 1968. A second five-year plan, to cover the period 1971-75, is currently in operation. Although it places emphasis on the rural sector and the expansion of production, infrastructure will still absorb the larger part of investment mostly owing to the execution of ongoing projects.

(iii) TRADE AND PAYMENTS. Over the last decade, Togo's annual average value of exports has been 6,500 million CFA francs and imports 9,300 million CFA francs (of which 1,000 million was due directly to capital expenditure by the mining industry). This clearly shows an annual deficit of about 2 - 3 billion CFA francs in recorded trade (there is a fair amount of unrecorded border trade, mostly with Ghana and Dahomey). But while it could be said that the 1960s, on average registered deficits on visible trade, Togo infact drifted from huge deficits in the early to surpluses in the late 1960s. The country's trade position moved from a staggering deficit of 2.5 billion CFA francs in 1965 to a comfortable surplus of 1.1 billion francs in 1969.[127]

The improvement in visible trade balance during the late sixties derives partly from increased expert receipts, and partly from a downturn in the growth of imports. Between 1962 and 1968 recorded experts more than doubled in value following the rapid expansion of phosphate and some agricultural experts. The value of cocoa experts grew steadily between 1962 and 1967, reflecting a favourable combination of volume and world market prices. Imports, on the other hand, grew more slowly after 1965.[128]

On the capital accounts side, Togo's balance of payments is maintained only with a growing level of foreign aid. During 1962 - 69, actual disbursements of foreign financial assistance to Togo in the form of grants averaged about 2.4

127. Ibid., p. 678.
128. Ibid., P. 681.

billion CFA francs a year; whilst total aid disbursements were estimated to amount to 3.6 billion CFA francs in 1969. The volume of non-repayable assistance relative to the size of total aid demonstrates that the burden of national debts must be fairly light. The major donors are France and the EEC. French aid consists mainly of investment grants, technical assistance, and, until 1967, budget aid. But EEC aid mostly finances agricultural development and diversification and infrastructure.

(iv) DEVELOPMENT PROSPECTS AND OUTLOOK Togo is a late "starter" in planned development; it is also a micro-state and poor with limited resources for investment. However, the Togolese government is pegging its hopes on developments in the mining sector to provide a solid launching-pad to a rapid economic advancement. Indeed, the spate of recent mineral discoveries in Togo, discussed above, could - subject to the known volume of reserves - act as a catalytic agent in stimulating and fostering economic activity. Furthermore, the government is making good progress in its policy of agricultural expansion and diversification.

But the country's problem is a lot more. Unemployment, until very recently, has not been a serious problem in the cities, but some 6,000 persons were registered in Lome as searching for jobs in 1969.[129] Even far more frustrating is the obvious development limitations imposed on Togo by its sheer physical size. "Slacks" in the economy cannot be easily utilised because the narrowness of the domestic market sets a ceilling on the level and range of economic activities. Thus it is difficult to see under the status quo how Togo could rapidly industrialise unless some form of integration could be arranged with one

129. Ibid., P. 65.

or more neighbouring countries, even at some cost to sensitive national pride.

Togo is well aware of its size problem and already belong to a number of loose economic groupings (discussed in chapter six). Not surprisingly, the cement factory, which was opened in Lome in 1971, is designed to produce local cement for the Entente countries. To some degree Togo's open door economic policy with non-discrimination in sources of supply of goods and in import requirements is a reaction to its difficulties. Currently, an economic co-operation agreement is being negotiated with Nigeria.[130]

In the final analysis, whether or not Togo can pull itself up by its own bootstraps will depend upon its ability to ensure a wider market for its new industries than is available within its borders.

6. UPPER VOLTA (Table 2:1)

One of the poorest of the poor countries of the world and lying between the Sahara Desert and the coastal lowlands of the West Africa, Upper Volta - like Niger - is completely landlocked. Its shortest distance to the sea is about 800 kilometers (500 miles) through Ivory Coast. The whole of the country is in the tropical climate zone. With the exception of the areas in the southwest and along the rivers, its soils are generally poor and are subject to erosion by heavy downpours in the rainy season. For the 5.3 million of Upper Volta, the problems inherent in their country's geographic position - high cost of factors of production, the effects of transport costs and dependence on

130. See Africa Research Bulletin. P. 2404C. Nigeria and Togo have agreed, in principle, to set up an economic community between them, which would eventually form the nucleus of the proposed West African Community. The main areas of co-operation would include transport, telecommunications and other links, trade liberalisation and industrial harmonisation. The other West African countries were to be invited to join the new community. At this early stage, observers are keeping their fingers crossed, watching the reaction of other West African countries and real actions on the part of the foundation members to back up their official resolutions.

neighbouring coastal countries for their supplies and for the despatch of their products - act as a brake on development.

(i) AGRICULTURE (Table 2:5) The population of Upper Volta is almost entirely made up of farmers and cattle men; 90% depend on agriculture and stock-rearing. The rural sector also accounts for about 50% of the GDP, with crop production generating more than half of this. Even so, Upper Volta is not self-sufficient in the production of basic agricultural foodstuffs. Consequently, there has been considerable official emphasis on growing more food crops. Because of the slow rate of growth of the principal food crops (sorghum, millet, and maize) the domestic consumption of exportables (mainly groundnuts, shearnuts and sesame seed) is considerable and must be met before the surplus can be exported. For instance, during the 1968/69 crop season only 7% of the total groundnut production was exported.[131]

Livestock dominates the Voltaic export market, mostly intra-African trade. It countributes over 50% of the value of exports and generates some 10% of the GDP. The estimated livestock population consist of about 2.3 million head of cattle, 1.5 million sheep, and 2.3 million goats. In recent years herds have been increasing at an average annual rate of 2.3%, but future growth rates of supply and foreign demand are expected to exceed 3% and 5% respectively. To exploit this growth potential, the government's development strategy tries to integrate stock-rearing into an expanded agriculture.[132]

Mining is still unimportant; and Upper Volta is not rich in mineral resources. Apart from the manganese deposits, which have been discovered in relatively

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131. IMF. Op.cit., P. 2693.

132. See Africa Research Bulletin. P. 2419B.

commercial quantities, only traces of other minerals have been found.[133] These include gold at Gangael (northeastern part), copper at Gaoua (in the southwest), bauxite, and lead. Studies are currently under way to determine whether these minerals exist in commercially exploitable quantities.

(ii) INDUSTRIAL PRODUCTION Production in the second sector is small and rudimentary. The sector's contribution to the national product is of the order of 5%. In 1966 there were 36 industrial plants of any respectable size, all located in the three most important towns (Ouagadougou, Bobo Dioulasso, and Koudougou) along the railway which links Upper Volta to Ivory Coast. As would be expected, most of the plants were engaged in processing domestic agricultural commodities and in producing import substitutes. The leading industries are cotton ginning, vegetable oil processing, tanning of hides, manufacture of leather products, assembling of bicycles and motorcycles, and production of beer and soft drinks.

Like Niger, its landlocked neighbour to the northeast, Upper Volta's industrialization programme has been conditioned by its physical and geographic factors. First, the poor state of the country's infractructure makes competition with the Ivory Coast difficult. It is true that the railway line, which has since 1934 linked Ouagadougou to the Coast is likely to be extended as far as Dori (a distance of 333 km), if manganese is to be mined; and that the road network of 16,000 km is far from negligible. Yet the Voltaic infrstructural system is far less developed than that of the Ivory Coast. For example, electric power in Upper Volta is still very expensive, averaging 8 US cents per KWh compared with

133. Traces of uranium are also reported to have been found (see Europa Publications, P. 879).

4.13 cents in Ivory Coast.[134]

Secondly, in several plants established to serve a market larger than that of Upper Volta, production has fallen below capacity, partly because neighbouring countries have established similar industries, and partly because of relatively high unit and delivery costs (see "Bulletin De L'Afrique Noire", nos. 586 and 591).

Thirdly, all LDCs in varying degrees suffer from the shortage of skilled labour. Upper Volta is no exception. What is ironical in the case of Upper Volta is that economic stagnation renders the effective employment of the existing force of trained personnel extremely difficult, and they are mostly obliged to emigrate to neighbouring countries.[135]

Finally and most importantly, Upper Volta is naturally resource poor.

The foregoing development problems of Upper Volta are understood better than the solutions to them. However, co-ordinated development planning had already begun. The country's first development plan (1963-67) of the partial variety focussed mainly on (a) increasing water supply; (b) soil preservation; (c) introduction of modern techniques through the agricultural extension services; and (d) the rehabilitation of the road network. A more all-embracing plan was soon to follow.

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134. Economist Intelligence Unit, et al, Op.cit., Vol. I, P. 15.

135. As discussed earlier, the majority of the immigrants from Upper Volta go to Ivory Coast where they work mostly in the coffee and cocoa plantations. This large outflow (about 1 million - see footnote 69) has been a mixed blessing. On the one hand the migrants have contributed significantly to the high growth rate of the Ivory Coast whilst Upper Volta has paid the price of almost total stagnation. On the other hand the outflow has not only reduced unemployment in Upper Volta - which would have otherwise reached alarming proportions - but also contributed to the favourable balance of payments in recent years because of the remittances by the migrants to relatives in Upper Volta.

In August 1967 the government of Upper Volta launched its first comprehensive Development Plan (1967-70), based on a total investment expenditure of 33 million CFA francs and covering all aspects of the country's economic life. Infrastructure and rural development which is the key to further growth, received 60% of the projected investment, with 18% and 15% going to the social and manufacturing sectors respectively. Implementation figures at the end of the plan period are not readily available but it would appear from available indications that the plan - which expected 84% of its total financing to come from external sources - could not realise that much. Infact, the rate of implementation declined from 69% in 1967 to 46% in 1968.[136]

However, neither the official development policy nor the investment distribution pattern has changed. The 1972 budget devotes 73.2% of its entire expenditure (as against 73% in 1971) to public services (see Africa Research Bulletin, P.2186B). A special Rural Development Fund Project (RDF) prepared by the National Development Bank with French aid envisages, by the time it is completed, the provision of about 500 wells for water supplies, 700 warehouses for equipment necessary to agriculture, some 190 small projects for farm and water development and about 70 km of service roads. The pregramme will cover most regions and will finally benefit 450,000 persons (Africa Research Bulletin, P. 2419B).

(iii) TRADE AND PAYMENTS A large portion of Upper Volta's external trade is still largely unknown. Here as in Niger, unrecorded trade consists largely of livestock exported on the hoof to neighbouring countries, which is usually exchanged for food products and other consumer items that are then imported clandestinely. Consider that cattle and other livestock products accounted for

136. See IMF, Op. cit., PP. 702-706.

53% or recorded exports in 1968, compared with 55% in 1962 - despite the fact that cattle production had increased steadily over this period at an annual rate of 3%.

The other area of marked export improvement relates to cotton production. Expansion in cotton and cottonseed exports in recent years has contributed greatly to Upper Volta's improved trade position. Ginned cotton exports rose from less than 0.2 billion in 1962 to about 0.9 billion CFA francs in 1968; and those of cottonseed also increased markedly, together accounting for 20% of the total export value in 1968. Exports of sheanuts, groundnuts and sesame seed have also registered satisfactory increases.[137]

But these improvements in export trade have not ensured a surplus on current trade account. On the contrary, Upper Volta has been running persistent deficits on its visible trade, principally because of the inability of export income to finance imports. During the decade, 1960-70, the country's trade deficit averaged 5 billion CFA francs. Thanks to aid. This deficit figure corresponds roughly with the amount of external aid committed annually over the period.[138]

On nontrade transactions, the picture is much brighter. Apart from official foreign assistance, there are other unrequited capital inflows, including 5 billion CFA francs which France pays annually to some 2,000 Voltaic veterans, remittances by emigrant workers from Upper Volta (mainly in Ivory Coast) valued at 4 billion CFA francs per year plus other miscellaneous receipts. Thus Upper Volta manages to offset the deficit on current account by a net inflow on the capital movements side.

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137. Ibid., P. 740

138. Europa Publications, Op.cit., P. 880. In 1966 export receipts financed only 42.8% the imports.

The over-all balance of payments surplus, which was 0.8 billion CFA francs in 1966, rose to 1.2 billion CFA francs in 1968.[139] And the burden of public aid, although it claimed 8.7% of the 1972 budget, compared with 6.8% in 1971 (see Africa Research Bulletin, P.2186B) is still within comfortable limits.

(iv) DEVELOPMENT PROSPECTS AND OUTLOOK As we have demonstrated above, the development difficulties facing Upper Volta are almost overwhelming. Industrialization is bedevilled by the country's physical remoteness, poverty in natural resources, weak infrastructural framework, heavy reliance on foreign aid and narrow and poor consuming population. The agricultural export base is equally not very strong; despite recent export improvements, less than half of the value of imports is covered by export receipts.

The harsh truth that emerges from the assessment of the economic situation of this austere country is that it cannot cope with its labour force. Emigration is an indispensable safety valve. But this is a blessing in reverse. Many of the best men are lost to the country, and this brings particularly acute problems in the field of regional development.

However, given the right leadership and right economic policies, the present economic picture could be considerably improved. The existing resources could be mobilised and fully exploited. For instance, the manganese deposits at Tambao in the northeastern part of the country could be exploited. A U.S. Company, Union Carbide Corporation has expressed interest in exploiting these deposits provided the present railway linking Abidjan (Ivory Coast) with

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139. IMF, Op. cit., P. 751.

Ouagadougou would be extended to Tamabao so as to facilitate the shipment of the mineral.[140] Expert earnings from this source alone could increase the present level by 60%.

Still it may seem difficult for Upper Volta to save itself by its own efforts. For one thing, the Voltaic economy - like that of Niger - was seriously damaged by the recent Sahel drought. The lack of rain led to a drastic decline in the output of subsistence crops and over-used and over-grazing of land created an ecological imbalance which may take years to rectify. The breeding of livestock in the north and east of the county was particularly affected; of a livestock estimate of 3 million cattle, 2.1 million sheep and 2.7 million goats in 1971/72, at least 20% died.[141] For Upper Volta, it must indeed be said that, to a great extent, the future must rest on the formation of a large economic grouping.

7 INTEGRATION AND MARKET SIZE (Table 6.9)

One important conclusion one could draw from the above review is that most of the countries of the survey have serious development problems. Among these is the question of "small" economic size with its concomitant narrow national markets. Although the fact that a country is "large" by no means ensures its rapid economic development, it is fair to assume, a priori, that large economic size is at least an advantage; hence development opportunities would be better with integration than without it.

140. Ibid. P. 699

141. See Barclays Bank, Country Report on Upper Volta, 14 May, 1975.

TABLE 6.9

GHANA - ENTENTE STATES: COMPARATIVE ECONOMIC INDICATORS

Country	GNP (in US $mns) 1973	Growth Rate of GDP 1960-70 (Average)	DEVELOPMENT PLANS		Annual Budgets in US $mns		Electricity Generation in '000 Kwh (1968)	Wage Earners in 1970 ('000)	Share of Intra-GECS Trade % (1971)	Value of Total Trade in US $mns (1971)	
			Period	Planned Investments in Mns CAF	1972/73	1973/74				Imports	Exports
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Ghana	2,250	2.6	1975-80	n.a	371.1	336.2	2,728,500	2,886[a]	10.5	433.6	341.4
Ivory Coast	1,730	7.5	1971-75	500,000	349.5	599.5	315,000	250	41.0	398.1	455.5
Dahomey	280	2.9	1966-70	35,128	55.7	57.3	23,600	36	8.6	76.3	41.9
Togo	300	7.6	1971-75	75,890	56.7	68.6	19,271	30	7.8	70.0	56.3
Niger	400	3.1	1970-73	44,731	66.1	60.2	28,200	27	15.8	53.0	38.4
Upper Volta	390	2.7	1972-75	62,133	49.5	52.7	22,540	29	16.4	49.6	15.9
Total	5,350	4.5	-	-	948.6	1,174.5	3,180,811	3,258	100	1,080.6	949.4

Note: a = The Ghanaian figure includes total employment.

Sources: UN, Yearbook of International Trade Statistics; EEC, The Courier, No.31 March 1975; Africa South of the Sahara 1975; West Africa's Council of the Entente, Africa Research Bulletin, Vol. 12, No. I, 28 February, 1975.

Table 6.9 presents some selected indicators which highlight the six economies under consideration. As indicated earlier, the economically weaker states of Dahomey, Togo, Niger and Upper Volta have very limited home markets. The consequence of this is that they can hardly establish large-scale industries and, in some cases, medium-scale industries based exclusively on domestic markets. If such industries are established in defiance of hard economic realities they would inevitably operate below their optimum capacity. Even in the case of Ghana and Ivory Coast, which are relatively richer judging by the economic indicators presented in Table 6.9, the case for a larger domestic market is equally strong.

As we noted in chapter 2, a sizeable proportion of industry in the area operates at less than full capacity, particularly the existing breweries and bicycle assembly plants in the Entente and the Akosombo and Aluminium Smelter projects in Ghana.[142] Given the existence of a wider market, it would be possible for these industries to reap the benefits of economies of scale. But it must be emphasized in view of the existing level of industrial duplication within the GECS that a certain amount of rationalization and mobilization of the existing level of excess-capacity through vertical specialization of production processes between plants in the same industry would be necessary if any integration scheme in the region is to achieve the desired purpose. The richer and poorer members alike will benefit from rationalization and specialization since each will specialise in, and supply the entire union, those commodities in which it has the greatest comparative advantage, subject to a common equitable distribution strategy.

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142. See also E.I.U. Vol. I, Op.cit., PP. 144-153.

Furthermore, it is anticipated that increased specialization in production would discourage further chauvinistic tendencies or anti-integration legislation, like the Ghana's Aliens Compliance Order and the Business Promotion Act, 1970 which barred several categories of citizens of neighbouring West African States from residing in Ghana or working in certain sectors of the economy.[143]

Of course the Ghanaian action must be viewed from the standpoint of its development dilemma. Periods of high unemployment and inflation at home often create a fertile ground for nationalistic adventures.

Besides important-substitution industrialization seems to be approaching its limit. One important consequence of import substitution, and the demand for imports it generates in the new import-substitute industries, is that it creates further scope for more import substitution. The establishment of domestic capacity to produce the inputs (and the equipment) needed by the domestic final consumers' goods industries often proceeds very slowly. The result is that there is too much capacity at the final and too little at the intermediate stages of production; this disparity calls for the importation of more inputs than anticipated, and when the foreign exchange to pay for these imports is not available, it leads to the under-utilization of capacity at the final stages of production thereby creating the impression of 'import substitution grinding to a halt'. Ghana appears to be in this situation and needs access to supra-national markets to stimulate domestic production.

Ghana's growth rate of the GDP merely averaged 2.6% from 1960 through 1970 whilst Ivory Coast registered a phenomenal growth rate of 7.5% over the same period. Although Togo, as shown in Table 6.9, topped the list in the growth

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143 See Chapter 2 (footnote 34) of this thesis.

league, its economy is not in the same comparable class with those of Ghana and Ivory Coast. The growth figures of the others have barely managed to keep pace with their rate of population growth.

Again, Ghana's share of intra-GECS trade is only 10.5%, although its GNP accounts for about 42% of the GECS total but the Ivory Coast, whose GNP in 1973 accounted for no more than 32% of the area's total, contributed 41% of its trade. (Table 6.9). The Ghanaian low figure reflects not its economic strength vis-a-vis the Ivory Coast but the absence of a common trading arrangement between it and the Entente States.

Niger and Upper Volta, both landlocked, depend heavily on intrazonal trade since they export mainly live animals on hoof to, and import simple manufactures from, their immediate neighbours; and their shares of 15.8% and 16.4% respectively demonstrate this. To them the formation of a trading block with their neighbours will be a welcome news. For Togo and Dahomey their shares of intra-zonal trade fairly reflect their size and strength.

The Iverian high figures indicates its dominant position within the Entente, which will be challenged with the entry of Ghana. Like Ghana, the Ivory Coast already has its own problems with import substitution industries. The latter's fast growth in the 1950-70 period can largely be attributed to the successful development of several major projects including the enlargement of the port of Abidjan and the building of the Vridi canal, and to the post-independence policy of building up import substitution industries. The slowing in the Iverian economy in recent years can be partly explained by the failure of private investment to switch from import substitution where there is an assured and protected market for their products to commodity based export processing

industries where the instability of commodity prices makes a profitable return less certain.[144] However, since under an economic integration scheme an assured and protected market can be offered to minimise the degree of uncertainty private investors in the region have very little to fear.

Meanwhile, development plans of the GECS countries continue to emphasize investments in industry, some of which need a regional rather than a national market. Over the plan period shown against each country in Table 6.9 a sizeable proportion of the total planned investments went to industry; for instance, the amount earmarked for industry accounted for 28% in Dahomey, 16.5% in Ivory Coast, and 20% each in Togo and Upper Volta.[145] The growth of budget expenditure of these countries further reflects this trend. With the exception of Ghana[146] and Niger, the annual budget figures of the GECS members show a substantial increase from 1972/73 to 1973/74 fiscal year, particularly Ivory Coast (Table 6.9). In the Ivorian case the growth in government spending from U.S $349.5 million to U.S $599.5 million in a single year respresented an increase of 71.5%. Even if this were indexed to the rate of inflation, it would still represent a phenomenal growth in public expenditure.

Surely, investment plans and policies of individual countries are a function of the long-term benefits they expect to derive from them because planning assumes its full significance in the long term. By the same token, the

144. For further discussion on this see Barclays Bank, Country Report on Ivory Coast, 6 May, 1975.

145. These percentage shares were obtained from other computations not shown in Table 6.6 (See Table Sources).

146. But for the financial year 1974-75, the National Redemption Council budgeted for a record expenditure of well over $554,01 million out of which $246 million was devoted to development projects. This was the largest sum ever voted by a Government of Ghana in a single fiscal year for developments, representing 44.4% of the total budget expenditure(See Africa Research Bulletin, Vol.12, No. I, 28 Feb. 1975).

need for the co-ordination of planning among members of a grouping must be directly related to the importance of the benefits which the individual members of the grouping expect to derive from the integration scheme. In other words, plan and policy co-ordination among the GECS need be closely related to the needs of their intra-zonal trade. This would be necessary in order to fully explore and utilise the opportunities for the exploitation of the economies of scale[147] and capital economisation through the diminution of project duplication.

Economic integration - either across the board or in specific export-oriented industries - represents a necessary policy for many least-developed and intermediate-type developing countries which aspire to a fair share in the common effort to expand exports of manufactured and semi-manufactured products not only to intra-union members but also to third countries with the help of Generalised System of Preferences.[148] Indeed, with particular reference to central West Africa, one could assert without exaggeration that, having regard to the irrational imbroglio of small national States (of the Togo and Dahomey variety), the poor landlocked ones (like Niger and Upper Volta) and the developing countries (such as Ghana and Ivory Coast), the group is one of the areas in the world where economic co-operation or, at least, the avoidance of disintegration is most imperative for economic development.

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147. Project studies carried out recently in South-East Asia on the cost curves of some of the basic industries such as chemicals and petrochemicals, machinery, glass and newsprint, show that the unit cost of production can be reduced by as much as 25%, or in cases, even more, if capacities are doubled or trebled to cater for an integrated market of three or five countries (See UNCTAC, Current Problems of Economic Integration, N.Y., 1974, P. 29 (TD/B/471). Similar conclusions are likely to be arrived at if similar studies were to be carried out in West Africa.

148. Ibid.

CHAPTER SEVEN

METHODOLOGY AND INTEGRATION INDUSTRIES

This chapter focuses on two main issues: the methodology we want to employ in measuring the gains or losses from economic integration between Ghana and the Entente states and the analysis of the selected integration industries. In chapter 4 we reviewed a number of recent attempts to quantify the costs and benefits of integration, including the Andics-Dosser model. The weaknesses of the various approaches have been touched upon; hence their utilization requires some modification or qualification to suit the purposes of a particular exercise.

I. METHODOLOGY

The form of integration envisaged in this study would be based on chosen "regional" industries[1] which are already in existence. The gains or losses involved in the operation of the regionally-oriented industries are to be estimated and the approach we want to follow is to adopt a modified form of the Andics-Dosser equation of industrial location. As discussed in chapter four, the Andics-Dosser model was designed to test the feasibility of proposed regional industries in terms of their net welfare benefits, subject to some agreed distribution criteria.[2] The point of departure in the present study is that we are mainly concerned with existing regional industries for which data are readily available. We therefore employ the Andics-Dosser model as a building

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1. These refer to projects which require supra-national markets to fully utilise their capacities or to expand their production to a point where they can appreciably exploit economies of scale (see section 2 of this chapter).
2. See Andic, et al, Op. cit., P. 39

block but redefine the factors it employs to suit our case. The logic of the exercise is to assess the net welfare benefits of fully utilising hitherto existing excess capacity or expanding them within the framework of economic integration.

Our methodology redefines the factors represented in the Andics-Desser model as follows (which are applied to all the industries considered):

$$\Delta^W = \Delta^I - \Delta^Y + \Delta^F - \Delta^K$$

where

W = a measure of welfare derived from the full capacity utilization or expansion of existing regional industry,

I = integration-induced value-added directly attributable to such industry,

Y = national income loss arising out of trade diversion (i.e. the switch in consumption from efficient extra-union producers to inefficient intra-union producers).

F = total value of actual current imports of the substituted commodity minus the import content of home production minus the imported content of specially required social overhead capital[3] corrected by the estimated foreign exchange savings based on the shadow price of foreign exchange.

K = the user cost of the unused portion of the regional industry's capacity and/or the cost of expansion to a particular country's account (see Section 2 (v) of chapter 8).

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3. The nature of overhead expenditure referred to here covers only such unavoidable overhead cost which the full utilization or expansion of industrial capaci brings about (e.g. buying a generator to provide electricity in an area where power supply is unavailable or irregular), hence such expenditure is treated as an integral part of costs to the entrepreneur.

Some comments must now be made in connexion with the above formula. Δ^W is a dependent variable reflecting the values of all the independent variables in the right-hand side of the equation. Therefore, as indicated earlier, it must show the net benefits of an integration industry positive if it is to be selected. Δ^W measures direct effects of multinational projects and ignores their indirect effects through linkages and complementarities. We will in our calculations disregard the indirect effects of regional industries but would qualify our conclusions accordingly to take account of this.

In the treatment of Δ^I, what is implied is the integration-induced valued-added. That is, the sum of non-industrial costs (like rent, consumable tools and parts) and net output (comprising labour and operating surplus). But, as we observed in chapter three, to equate Δ^I with the whole of value-added ignores the contributions of autonomous improvements in labour productivity and technical advance to rapid economic growth. The implied assumption in this kind of reasoning is that the opportunity cost of factors is uniformly zero. This is an unrealistic assumption, even allowing for the alleged low/zero marginal productivity of labour in LDCs (Arthur Lewis, 1954). However, this assumption, which is difficult to avoid, is made here for our present purposes. Furthermore, since the efficiency of factors of production is bound to vary from industry to industry and from country to country, it is expected that the gross valve-added would not necessarily be the same in the same or different industries in the same of different countries. This has obvious implications for the pricing of the products of integration industries and, ipso facto, for the distribution of the costs and benefits of integration. This problem will be considered in chapter 9.

The estimation of Δ^I will employ input-output tables since under protection prices of inputs and outputs incorporate tariff. The familiar relationship is given as:

$$Vj = Xj - \sum_{i=1}^{n} Mij$$

where Vj = value added for industry j (under protection);

Xj = domestic value of output of industry j (under protection)

Mij = domestic value of inputs purchased by industry j from industry i (under protection).

Perhaps net value-added[4] would have given a clearer picture of the real contribution of integration industries to welfare. But there are no disaggregated figures available, showing gross value-added and net value-added separately for the countries under review. Besides, differences in classifications and methods of estimation in the area render problems of disaggregation on the basis of available data difficult. Nevertheless, gross value-added does indicate an order of magnitude with respect to the contribution of integration industries to GDP.

The measurement of Δ^Y, like that of Δ^I (above), employs input-output tables. We also apply the concept of effective rate of protection. Effective rate of protection is defined as the difference between the value-added in a sector of industry under protection and the value-added that would exist under free trade, expressed as a percentage of free market value-added.[5] This will be discussed further in the next chapter.

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4. We refer to gross value-added net of non-industrial costs (i.e. payments to labour and operating surplus).

5. Grubel, H.G. and H.G. Johnson, "Nominal Tariffs, Indirect Taxes and Effective Rates of Protection: The Common Market Countries 1959", Economic Journal (1967), 77, P. 761.

With respect to the assessment of the value of F, it is important to estimate the amount of foreign exchange saved, if any, consequent upon the fuller utilisation of existing industrial capacity or the expansion of regional industries, which, it is assumed, would capture part or all of the domestic (union) market in the production of certain commodities previously imported from other sources. However, a separate estimate of F, though it would be made for purposes of comparison and emphasis only (see chapter 8), would involve double-counting since our estimate of value added would take care of the foreign exchange savings. Even so, in view of the high opportunity cost of foreign exchange in most LDCs, we want to assess the difference between the shadow price value and the world price value of domestically produced imports. The difference would be treated as additional foreign exchange savings in our model. To be able to estimate the value of F, we redefined it as the sum of the actual import values of the substituted commodity, say, in a typical year, or an average figure (for some years), net of the imported input components and of the import content of required social overhead capital[6] (SOC).

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6. The Andics and Desser (Op.cit. P. 38) define F to include the actual value of imports plus any other reduction in imports through lowering of real national income adjusted for import content of direct inputs and for the import content of required social overhead capital. We have excluded "any other reduction in imports through lowering of real national income" because of the complexity of this concept. First, it implicitly assumes a constant demand for, and constant supply of, the imported commodity without substantial price changes hence it must claim a fixed ratio of the import bill. But the assumption of non-existence of fluctuations in imports in the real world is not a very compelling logic; and only the actual import figures can reflect the real trend. Secondly, the factors responsible for fluctuations in real national income are not always the direct result of a policy action. Sometimes, natural causes can explain this. Therefore there is no reason why the propensity to import should not be tailored to the actual import capacity of a country rather than a supposed capacity to import. However, where projections to determine future import values are involved as we shall do later, an estimate of the elasticity of demand for the product(s) would be made. Also, for practical purposes, we define SOC as comprising transport and power. The wider concept includes "those basic services without which primary, secondary, and tertiary productive activities cannot function" (A. O. Hirschman, The Strategy of Economic Development. Yale University Press, 1958,

Finally, there is the task of estimating K. This is relatively easier insofar as we are concerned with the capital cost of unused portion of the regional industry's capacity and/or the cost of its expansion to a particular country's account in the absence of a common regional bank or a union capital market.

Now, one more important point about estimating the value of K. This concerns the transport cost component of K. In a region such as West Africa where the network of communications is relatively underdeveloped, the role of transport costs in industrial location is a very important one. It is doubly so when the level of inter-country transport development is very uneven.[7] Some summary data illustrating transport cost differentials among the countries under discussion are given below:

TABLE 7.1

(U.S) Cents Per Ton Km

	Ivory Coast	Upper Volta	Niger	Dahomey	Togo	Ghana
Road	5.6	6	7.6	2.7	2.8	2.6
Rail	2.4	2	-	2.4	2.4	2.1

Source: E.I.U. and Associate, 1970 P. 43

The prices given in the above table relate, as far as possible, to the transport of similar goods (miscellaneous products of average value) and to local factors.

As would be expected, the price of road transport depends on a large number of factors: distance covered, goods carried, routes followed, load factor, possibility of handling return freight and the like. It is therefore

P. 83) - would include certain non-quantifiable elements whose actual contributions to production, in relation to our study, are uncertain.

7. This was discussed in some detail in chapter two.

not surprising that road transport costs are much higher in the landlocked countries (Upper Volta and Niger) than in the coastal areas. In the former, higher prices are attributable largely to the cost of petroleum products and spare parts and the state of the roads.

Road transport charges in Ivory Coast, in relation to other coastal states, are very high. This could be explained partly by load factor[8] (i.e. high ratio of heavy products, such as cement, machines and equipment in total road freight) and partly by the relatively higher cost of living in the country.

In Togo and Dahomey the rates are different according to whether or not the routes run between towns served by both road and rail. On routes where there is a rail link, the prices of road transport are aligned to the rates for rail transport, or are generally slightly lower, while on the routes served only by road, the rates in force are markedly higher.

Ghana's road transport price is the lowest (Table 7.1). In a way this is a reflection of the healthy competition between the public and private sectors in road transport service.[9]

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8. This does not necessarily mean that in absolute terms Ivory Coast produces and/or imports more heavy products than Ghana, although in relative terms the former carries more heavy road freight than the latter. Also Ivory Coast has more road-km per capita than any other country in West Africa. With a population of 4.1 million, it has a system of 30,000 km of primary and secondary roads. The comparable figure for Ghana is 32,000 km in a population of over 8 million inhabitants.

9. The Ghana State Transport Corporation (STC) owns and operates a fleet of coaches, competing with the private sector in most major trunk roads. The road transport price (quoted in Table 7.1) has been taken from private transporters as the STC rates were under review at the time. However, the difference between the STC and private charges has always been very marginal. Currently, plans are underway to develop the largest man-made lake in the world, created by the Volta River Scheme, as an inland waterway.

Also a good communications network by African Standards has something to do with it.[10]

Insofar as rail transport prices are concerned, the inter-country price differentials are quite small. One possible explanation here is that rail transport is more important in official import-export trade than in passenger freight. Thus rail transport prices tend to be more standardised and fixed than road transport charges. From the standpoint of integration, this augurs well for transport harmonization.

The picture that emerges from the foregoing illustration shows that differences in transport charges between different parts of a region could affect industrial locations and output prices. Going back to our model, K is defined as the capital cost of the unused portion of a regional project to a given country. The implied assumption thus is that the value of K includes, among others,[11] transport costs of input valued at factory price. Put another way, we are mainly interested in ex-factory costs of production, assuming that the distribution costs are borne, partially or wholly, by the final consumer rather than the producer.[12] Any one of the familiar project evaluation techniques could be modified and employed to determine the value of K.

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10. In addition to a large road system, Ghana has 1,288 km (805 miles) of railway, the so - called "golden triangle," which provide a good link between the major population centres. The road system , however, remains the most important transport network, although it has recently suffered from a lack of proper maintenance.

11. Transport costs are sometimes only a small part of total costs of production. The major cost factors are generally the fixed and variable elements. But transport considerations acquire greater importance with respect to distribution.

12. Even if distribution costs enter into production costs, adjustments could be made to take account of this. In that case, K would be valued at border or consumption point prices.

The Carnoy's approach[13] is perhaps an improvement on the conventional "discounted present value formula" (i.e. 'Discounted Cash Flow') of project evaluation. As noted earlier, the great advantage of the Carnoy technique is that it recognises the transport problems of many LDCs and tries to give adequate weight to them in project appraisals from the standpoint of integration.[14] It concerns itself with the welfare gains or losses involved to intra-union consumers in the consumption of products of "optimum" industries vis-a-vis those of "non-optimum" industries. In this way various alternative location points and consumption points were assumed and their cost differentials, especially in terms of transport, carefully weighed against importing from third countries.

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13. Op.cit. This method of evaluation is relevant to both new and existing but under-utilized industries.

14. This is not to underplay the weaknesses of the model some of which have been pointed out heretofore. The model deals with only a few isolated industries rather than with the economy as a whole (see Carnoy, Op.cit. P. 36). This exposes it to all the limitations inherent in partial equilibrium analysis. Ideally, all industries and segments of the economy should be considered within the framework of a general equilibrum system, so that both direct and indirect impacts of economic integration could be measured. There are also such other questions like, the degree of data reliability, the long-run value of price and cost estimates based on ceteris paribus assumptions with respect to changes in prices and costs.

1.1 THE TRANSPORT - COST FACTOR

However, the employment of the Carnoy technique falls outside the competence of the present study. Neither the range of data required nor the computations involved could be adequately dealt with within the scope of this study.[15] For our own purpose, we have to come to terms with what is available or could be done within our own limitations. Available information - for use in this study - suggests that the appraisal of the selected regional projects[16] was based on the 'Discounted Cash Flow' (DCF).[17] And although the DCF is still the commonest method of project evaluation in West Africa, it takes into account only the aggregate ex-factory costs of production (dk) but does not adequately deal with distribution costs, which for an area like Central-West Africa could substantially increase the unit cost of the final consumer (Table 7.1). To take account of this, we introduce a transport-cost factor in our original evaluation function such that our welfare gains/losses as represented by Δ^{W}_{a} could now vary between two different locations of plant.

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15. It may be noted that the study on which Carnoy based his (ed.) Industrialization in a Latin American Common Market took eleven research institutions over five years to complete (1963-68). Even in a modified form of it, one is bound to come up against non-existing data.

16. See section 2 of this chapter.

17. In the conventional sense, the DCF technique provides a tool for comparing different inflows and outflows by expressing them, through the known rate of discount, in terms of a single figure which takes account of the total amounts of income and expenditure, the pattern in which they are spread out over time, and the life span of the project (OECD, Manual of Industrial Project Analysis in Developing Countries, Vol.1, 1968, P.116). Very recently, two refined approaches to project evaluation in LDCs have been published - one by the OECD, I.M Little and J.A. Mirrlees, Manual of Industrial Project - Analysis in Developing Countries, Vol.II, Paris, 1969, and the other by the United Nations Industrial Development Organization (UNIDO), Guidelines for Project Evaluation in Developing Countries, mimeo (1970), forthcoming (1972) UNIDO Publication. Little and Mirrlees refined, developed and brought the DCF formula to a new stage. Although most of their innovations are more apparent than real, their

Our final evaluation function is thus as follows:

$$\Delta^W = \Delta^I - \Delta^Y + \Delta^F - \Delta^K - \Delta^T$$

Ideally, the transport-cost factor should be treated as $\Delta^T < 0$ but in reality Δ^T could be zero under certain circumstances. Such a situation from the point of view of the producer might include cases: (a) where there is no geographic spread of markets (i.e., markets concentrate around the industry) hence delivery costs are marginal or even zero; (b) where the cost of distribution is entirely borne by the final consumer; and (c) where the distribution cost is borne by the state through subsidy.

But with the exception of the first case (which in any case is rare), transport costs whether borne by a public authority or the consumer represents a cost or loss to the society and should form part of welfare losses.

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ideas have stirred up so much interest and so much dust! (See the Symposium on the Little-Mirrlees Manual of Industrial Project Analysis in Developing countries, Bulletin of the Oxford University Institute of Economics and Statistics, 1 (34), February, 1972). The most important - also the most controversial - innovations put forward by Little and Mirrlees is their notion that all prices used in project calculation should be world prices. This applies to both traded and non-traded inputs (such non-tradables as electricity, construction, local transport, and labour). Critics of the Little-Mirrlees methodology have been quick to point out that in most LDCs, it would be similar and sufficient to use: (a) world prices for the actually traded major capital and current inputs, and for the outputs; (b) domestic factor costs (at either shadow or market prices as judged appropriate) for the non-traded inputs; and then to convert these foreign and domestic values into a single currency by resort to an exchange rate (official or shadow) deemed reasonable (IMF, Finance and Development. (1), 1972, PP.16-21). The UNIDO approach unlike the OECD manual approaches the problem of project evaluation from a different angle, if only slightly so. The point of departure in the UNIDO approach to project evaluation lies in the fact that it recommends measuring benefits and costs in terms of consumption. According to this model the value of a project depends upon the consumers' "willingness to pay" for the "net output" of the project. In other terms the present aggregate consumption is the operational numeraire. But like the OECD Manual, it believes that valuing goods and services in terms of market prices is inadequate in reflecting national benefits and costs, hence both balk at the use of market prices but recommend instead the use of appropriat

Because of the range and quality of available data we have not employed an advanced technique in estimating the value of Δ^T (See Chapter 8). But it is intended that the results would indicate useful guidelines for policy action similar to those of Carney. For the products examined elsewhere in this chapter, data have been available on their ex-works prices, road or rail transport charges per ton/km, the road distances from different production and consumption points as well as annual output figures. Given the annual volume of demand for each particular commodity for which estimates are available the delivery costs of the commodities from alternative locations are computed in chapter eight. The transport element Δ^T clearly demonstrates the difference between the ex-works costs of production Δ^K and the final consumer prices.

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shadow prices to measure the social value of benefits and costs. Also both recommend the use of present value as the correct criterion to use in judging industrial projects. The two approaches, however, diverge on the issue of choosing a numeraire. The OECD model uses investment (expressed in free foreign exchange) as the unit of measurement in place of consumption favoured by the UNIDO approach. The choice of the numeraire is, of course, largely a matter of convenience and need not by itself necessarily make much difference to one's judgement about the technical feasibility or desirability of a project (O.U. Bulletin.op.cit., P. 42). What matters, though, relates to the differences in assumptions and concepts. For instance, whereas one is discounting aggregate net benefits expressed in terms of consumption in the UNIDO model, one is discounting net benefits expressed in terms of investible resources in the OECD case. Here lies the reason why the two rates of discount might be different and why the accounting rate of interest might typically be greater than social rate of discount. In terms of empirical application both approaches generally have their advantages and pitfalls, some of which have been noted. If the commercial policy of a nation were efficient (i.e. free from restrictions) it would be perfectly correct to value tradable goods using world prices, as the OECD approach recommend but typically the trade policies of LDCs generally are, in this sense, imperfect. The UNIDO, given a "free trade" situation, would make a similar recommendation. In practice, it is difficult to see how the exclusive reliance on world prices can faithfully register the social benefits and costs involved in the use of tradable commodities in LDCs. Although the UNIDO model is, in a way, taxonomic, and provides a greater degree of freedom in its choice of assumptions, both models do not appear to have very bright prospects for immediate use in West Africa until some of the controversies and difficulties they involve are solved.

1.2 Weighting of the Evaluation Function Factors

Now, we return to the question of weights applied to the evaluation function factors discussed earlier in this chapter. Structurally, the economic problems of development in West Africa, like these of most LDCs, are many but their magnitudes vary from country to country. Some of these problems, which we are primarily concerned with, have been discussed in some detail in the previous chapter. To minimise repetition, only summary comments intended to emphasize the relative weights of the factors are intended here.

Given the sluggish performance of the primary export sector, it is now generally agreed that industrialisation, and more specifically the development of manufacturing, is the pace-setter of economic progress upon which a higher standard of living can be achieved. Consequently, industrialisation geared towards import-substitution has been embarked upon but the experience of different countries has been mixed and varied. Development has produced its own by-products - if only ironically - to warrant the focus of concern and policy. A high level of unemployment co-exists with capital-intensive techniques of production; over-stretching of limited financial resources has led to budget deficits, and foreign exchange bottlenecks have checked the rate of economic growth itself. What is more, unusual transport difficulties are not uncommon.

Thus the measurement of the welfare effects of economic integration which takes into account the relative importance and effects of the above variables on each individual country requires a system of weighting. But weighting five different items some of which are highly variable (i.e. relative weights change with bouts of fluctuations in the economy) in six different economies introduces some complications.

Firstly, all items cannot be weighted equally by assigning equal values and taking simple averages because the relative importance of each item varies not only among other items but between different countries. In other words, each item should be differentially treated (country by country) according to the critical resource gaps and development bottlenecks in each economy. For example, as we noted earlier although it could be said that all the countries under review have foreign exchange problem, it is more acute in the poorer states. Secondly, given the urge to safeguard against total concentration of industries in one country, any meaningful weighting system should integrate a distribution formula into it. Thirdly, if we assume that the economic fortunes of some of the countries under discussion fluctuate all too frequently, especially those highly dependent on one major export crop, it is necessary to appreciate how quickly the bases for determining any system of weighting can become out of date.

Nevertheless, the idea of weighting our evaluation function factors serves to emphasize the dominant economic gaps in any one country within a prospective union at any particular time.

2 INTEGRATION INDUSTRIES

2.1 SELECTION OF INDUSTRIES

Choosing integration industries for study within the limited scope of this thesis poses special problems. Ideally one should focus attention on those industries whose products are strategic to the rapid economic development and, perhaps, integration of General-West Africa. These would chiefly comprise capital goods and heavy industries, in which economies of scale and strong interindustry linkages could be more easily realised. But, in reality, technical and resource problems render investments in these industries difficult. Besides, the desire to establish these projects does not necessarily coincide with the national interests of governments and industrialists in the area.

On the side of consumer goods sector the problems of project selection are still not very simple. For one thing, the question of non-homogeneity of products in a region, where different weights and measures as well as product qualities[18] exist, could militate against the expansion of sales - though this is not really a serious problem as it can be easily overcome overtime through standardization. More importantly, there is the wider question of national versus international priorities with respect to project selection and industrial expansion on the one hand and the economic feasibility of individual projects on the other. In so far as the former is concerned the rationale for integration industries may be satisfied if more than one country provided markets for the products of a chosen industry. But with respect to the latter a very extensive

18. In Ghana galvanised sheets are sold in 2.44 metres by 64 CM sections whilst in the Entente they are 2 metres by 0.9. It is not only a question of standards but also that of taste. The enamel-ware bought in Ghana is lighter than in the Ivory Coast, while in Togo it is lighter still. Tiny considerations of this nature are particularly important in relation to consumer goods.

study, covering most of the probable projects would have to be carried out to ascertain the qualifying industries. However, time limitations, data problems, limited resources and the scope of this study cannot adequately cope with an exercise of such magnitude. Thus we shall be guided by a careful examination of the existing industrial potential of the region and of the various industrial projects under consideration, including those already in operation within the six countries.

An inquiry[19] into the policy of industrial development in Central-West Africa within a purely national framework, based primarily on import substitution of large scale consumer products, seems to suggest that its potentials are almost coming to an end. The main noteable exception is the processing of agricultural products of local origin. Really, if import-substitution has led to inward-oriented development policies, and if the limits of "autarchic" import substitution are now obvious,[20] a more outward-bound policy conceived on a regional or multinational scale would provide new opportunities for import substitution in respect of a range of finished products. Also it will make possible the manufacture of intermediate products and thus encourage the formation of an economy with a regional structure and the development of inter-industry and inter-country trading.

Viewed from this perspective and our own limitations, the examination of existing industries and industrial projects enables us to select four main product groups for special study. These are cement works, chemical fertilisers, leather and shoes and petroleum refining.

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19. See E.I.U and Associate, op. cit., Vol.1, PP. 91-156. Also see the section on Industrial Survey in Chapter 3.

20. I.B. Kravis, "Trade as a Handmaiden of Growth: Similarities between the 19th and 20th Centuries", Economic Journal, December, 1970. Kravis assets that that the Post-war industrialization strategy of import substitution is now reaching its limits for many LDCs.

We believe that (a) these commodity groups relate to intermediate or final products whose national markets are clearly too limited to permit a full utilization of existing capacity and realisation of economies of scale, and (b) these industries, in which surplus capacity exists, can be shown to be quite economic to make the feasibility of net gains for co-operation a real one.[21] Also we assume that they offer prospects for the exploitation of economies of scale within the context of a wider market in the Corden sense,[22] subject to some qualifications to be considered below.

Indeed, our assumption of the existence of economies of scale is central to this study since it is one of the key sources of gain from economic co-operation (chapter 3). Similarly, the conventional trade creation (within limits) and trade diversion concepts are still relevant. For instance, the expansion of intra-union demand which will be supplied from intra-union sources provides opportunities for the exploitation of economies of scale and trade creation. This will in turn lead to fuller utilization or expansion of existing production capacity, as the succeeding industrial survey shows.

However, the Corden's single-homogeneous-product two-country-union model is not exactly the same as our complicated multi-product multi-country approach. Furthermore, where, as in our case, there are two or more countries producing a given commodity and where also there is a deliberate union policy to keep some less efficient producers in business in the interest of balanced

21. See E.I.U., Op. cit. (Vols. 1-3).

22. W.M. Corden, "Economies of Scale and Customs Union Theory", Journal of Political Economy, Vol. 80, No. 3 (1), May / June, 1972, PP. 465.- 75. This article appears to assume economic integration among developed countries where a greater degree of intra-union competition is most likely to exist than in "regulated" customs unions among LDCs such as we have here. Accordingly the relevance of his analysis to our case requires some qualifications.

union development, the opportunities for the exploitation of economies of scale as well as trade creation may not be as great as in the simple Corden model.

Even so the extent of the GECS market can still provide opportunities for the exploitation of economies of scale in a regulated sense. Although Ghana and Ivory Coast are self-sufficient in the production of the commodities reviewed below (hence there is no trade between them in those products), each of them still exports to some or all of the other four countries. In this way they and other intra-union exporters enjoy the advantages of economies of scale. Also domestic consumers, whose needs less efficient producers cannot adequately cater for, could be allowed under union arrangement to import part of their requirements from other more efficient intra-union sources, thereby creating opportunities for limited (if only rationalised) trade creation. It seems, indeed, that, given the various, and sometimes conflicting, objective functions (including industrialization, rapid growth, employment and balanced development) which most groupings in LDCs want to maximise (both collectively and individually), the best they can hope for at this stage is some form of incomplete specialization and trade creation.

We provide below as far as data can permit a more detailed survey of the state of production and future possibilities in the region with respect to the four product groups singled out for special study.

2.2 CEMENT INDUSTRY (SITC: 661 I.S.I.C. 334)

(i) PRODUCTION PROCESSES.[23]

Cement manufacture is made up of two products - clinker and cement itself. Clinker is the mixture of chalk or limestone and clay which emerges from a rotary kiln fired by pulverised coal or oil. The substances are first crushed and ground, and then mixed in proportions suitable to the chemical composition of each, these proportions being, in general, 75% limestone and 25% clay. A powder, which is fired from a vertical or rotary kilns at about 1,400°, is then obtained. The product taken from the discharge end of the kiln, when cooled, is hard and blackish, and is called clinker.

Clinker is, in fact, "cement" in small pieces. The clinker, when ground with a small quantity of gypsum (usually from 2-6%) and sometimes pozzolana or other substances into fine powder, produces cement. It is therefore technically quite normal for the full range of operations to be carried out in one plant. Equally too, imported clinker can be ground but not produced at the same site.

The cement industry of the region consists entirely of clinker grinding plants, except in the case of Niger (Malbasa). These plants (Table 7.2) of which there are two in Ivory Coast and two in Ghana, are located in ports (Abidjan, Tema, Takoradi (see Communications map) and process clinker imported from various European countries, mainly Scandinavian. The reasons for preference for coastal locations will be discussed later.

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23. This sub-section draws on E.I.U. and Associate op.cit. see also C.F. Prattern, Economies of Scale in Manufacturing, O.U.P., 1971, PP. 88 -89.

TABLE 7.2

PROFILE OF EXISTING CEMENT INDUSTRY IN CENTRAL-WEST AFRICA

COUNTRY	IVORY COAST		NIGER	GHANA	
Company & Outside Links	S.I.C.M. Societe Ivoirienne de ciment et materiaux (Ciments d'Orbigny)	S.C.A. Societe des Ciments d'Abidjan (Letoumeau - Societe VICAT - Ciments de Marseille)	S.N.C. Societe Nigerienne de Cimenterie (Majority shareholder state)	GHANA CEMENT WORKS LTD. (STATE 75% - NORWAY 25%)	
LEGAL STRUCTURE	S. A.	S. A.	Mixed-State Private Co.	Mixed-State Private Co.	
LOCATION	Abidjan	Abidjan	Malbaza	Tema	Takoradi
DATE OF STARTING OF PRODUCTION	1963	1966	1966	(May) 1968	1968
DEFINITION OF THE PRODUCT	Portland Cement	Portland Cement	Portland Cement (250-325)	Portland Cement	
PRODUCTION CAPACITY	150,000t	150,000t	47,000t	150,000/200,000t 1 grinder 30t/hour	450,000/500,000t 3 grinders 25t/hour
ACTUAL PRODUCTION	1966: 110,000t 1967: 136,000t	1967: 121,500t	N.A.	Operation irregular	N.A.
UNIT PRICES	Ex-factory (Abidjan) F/t: 26.5 Wholesale " " 28.6 Retail " " 30.0		Ex-factory: F/t 44.0 Wholesale(Niamey) F/t66.0 " (Zinder " 62.0	In Bulk F/t: 25.0 In bags F/t: 26.6 Delivered Accra: F/t: 30.8	
DESTINATION OF SALES	Domestic Market: 99% Upper Volta " : 1%	Domestic Market: 97% Upper Volta " : 3%	Domestic Market: Price too high to be exported: 2% sold to Nigeria	DOMESTIC MARKET	
RAW MATERIALS AND COMPONENTS	Entirely imported Clinker: Europe Gypsum: Europe Paper sakes: Scandinavia	Entirely imported Clinker: Europe Gypsum: Europe Paper Sanks: Austria	Clay, limestone and gypsum, from local sources. Paper sacks from France & Sweden	Clinker and gypsum - imported from Poland and Scandinavia. Paper sacks imported from Norway.	
NUMBER OF EMPLOYEES	@ 47	60	210	110	175 (Plus Accra Office 21)

Source: Economist Intelligence Unite and Associate, Op.cit. Vol. 4, P. 138.

(ii) THE DIMENSIONS OF SCALE

All the factories in the region manufacture a single product - portland cement. Thus the economies of scale arising from reducing variety and achieving long production runs and large outputs of individual products are not open to this industry, since variety does not exist in the first instance. Therefore the key dimension of scale for determining economies is simply the output capacity of cement factories. Even so substantial economies could be reaped from capacity expansion. Indeed, the following tables illustrate that costs and scale of cement production follow a curve-linear function.

TABLE 7.3

COSTS AND SCALE FOR CEMENT FACTORIES

	CAPACITY OF WORKS (000 metric tons p.a)						
	33	66	100	200	400	500	1,000
Fixed investment per ton of capacity:							
W. Germany £	48	35	29	24	19		
(index)	(200)	(146)	(121)	(100)	(79)		
U.S.A. £			65	54	45	43	30
(index)			(120)	(100)	(83)	(80)	(56)
LABOUR REQUIREMENTS:							
U.S.A. Number per 100,000t			75	48	32	30	15
(index)			(156)	(100)	(67)	(63)	(31)
Unit Costs per ton of Capacity:							
W. Germany £	21	17	16	14	12		
(index)	(150)	(121)	(114)	(100)	(86)		
U. S. A. £			22	19	17	16	12
(index)			(116)	(100)	(89)	(84)	(63)

Source: C. F. Pratten, Economies of Scale in Manufacturing Industry, CUP, P.91

TABLE 7.4

ESTIMATED COSTS[a] FOR NEW U.K. CEMENT WORKS

CAPACITY (000)	100	200	500	1,000	2,000
No. of Kilns and Mills	1	1	2	2	2
			INDICES OF COSTS		
Fuel, Power and Materials	100	98	97	96	95
Wages and Salaries	100	70	55	40	35
Depreciation and Return on Capital	100	80	70	58	47
Overheads	100	90	82	75	70
Average Total Costs	100	85	77	69	62
Value Added	100	80	69	58	49
Marginal Cost	100	70	72	61	55

[a]Note: The Costs of transport and distribution are excluded.

Source: C.F. Pratten, Op. cit., P. 92

Table 7.3 demonstrates the main relationships between costs and scale with respect to labour and fixed investment[24] in the United States and Western Germany. The economies of scale achieved are reflected in the inverse relationship between the unit costs per ton and production capacity. In the case of Britain (Table 7.4) the figures for average total costs underline precisely the same relationship. These statistics,[25] whatever their defects, bring home the important message that the manufacture of cement conforms with the

24. In part, the substantial difference between the U.S. and German estimtes of capital costs is accounted for by the exclusion from the German data certain cost items - land and land clearing, opening up of the quarry, power generating equipment and the like. These are included in the U.S. figures. Relative price differentials in the two countries might be another explanatory factor.

25. C.F. Pratten (Op.cit.P.92) based the Tables 7.3 and 7.4 upon his findings from firms in the industry and an earlier study published by the United Nations which was not quoted in detail.

micro-economic theory of decreasing unit costs as capacity increases until an economic optimum scale is attained.

As shown in Table 7.3 the major sources of economies of scale are capital costs and direct labour inputs. There are also some economies to be derived from utilities and feedstock.

With respect to capital costs, the economies of scale stem from the operation of a simple rule of thumb that is used by engineers to relate fixed capital costs to scale and this principle is operable in respect of cement production. This is the 0.6 rule.[26] The exponent varies for different types of plants and over the range of sizes of individual types of plant. However, because of the defects of the 0.6 rule, the critics (Woodier and Woolcock) argue that a better measure of the economies of scale emanating from capital costs could be obtained if capital costs were split into three, estimated separately and weighted before establishing a general rule.

These are: (i) items of equipment e.g. the control room, the total costs of which are the same whatever the size of plant or are hardly affected by scale. Another example of expenditure falling into this group is design charges, although in practice the cost of designing a large plant may be greater than for a small one but hardly so proportionately. (Exponent - say 0.0 - 0.4); (ii) items of plant (such as columns, vessels, pipe work or heat exchangers) which can be made bigger or smaller as required and for which the number is therefore independent of plant size. (Exponent, say 0.4 - 0.8).

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26. C.F. Pratten, Ibid, P. 41. The 0.6 rule states that if capacity is multiplied by a factor X, the capital cost is multiplied by $X^{0.6}$. A.E. Woodier and J.W. Woolcock in a paper on the 0.6 rule (European Chemical News, Supplement 10 Sept., 1965, P. 7) have drawn attention to the danger inherent on relying on such a rule. They argue that a breakdown of capital costs into categories to be assessed separately would give a better estimate of total costs than the so-called rule of thumb.

The assumption here of course is that the exponent applies over the range of sizes of units of plant which are within the range of sizes normally built; and (iii) items of plant for which costs are nearly proportional to scale. A good example of this type of plant is the furnace section of a large unit. Technical problems limit the size of individual cracking furnaces and as a result, a large plant has many furnaces. (Exponent between 0.8 and 1.0).

Direct labour, supervision and overhead costs are other sources of scale economies. It is a well-known fact that, on purely technical grounds, it is not often necessary to have more operating personnel for a large plant, though in practice unions would insist on this. Even so the index of wages and salaries in relation to scale, as shown in table 7.4 is fairly typical of cement industry. It is even so in Central West Africa as the technique of production, even when factor costs would have dictated otherwise, is very similar. Table 7.5 below highlights this point. Though the level of sophistication of manufacturing in the U.S. relative to West Africa hardly provides a very strong foundation for comparison, the table brings out the relevant point at issue. It is simply that industries which are capital intensive in DCs tend to operate, with slight modifications, along similar lines in LDCs, if only because the same company or its subsidiary may be directly or indirectly involved in the operations in the two regions.[27]

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27. For example, the principal shareholders of the West African Portland cement Co. are the Blue Circle Group of the U.K., whilst the Tunnell Portland Cement (UK) is a shareholder in the Nigerian Cement Co. at Nkalagu (Eastern Nigeria.)

TABLE 7.5

LABOUR EMPLOYMENT AND CAPACITY IN CEMENT INDUSTRY: US VS. WEST AFRICA
(EMPLOYEES FOR '000 METRIC TONS)

	Capacity	100	200	400	500	1.000
United States	No. Employed	75	48	32	30	15
Central - West Africa	Capacity	Ivory Coast (a) 150	Ivory Coast (b) 150	Niger 47	Ghana (a) 150/200	Ghana (b) 450/500
	No. Employed	47	60	210	110	175

Sources: Culled from C.F. Pratten, op.cit. and E.I.U. and Associate, op.cit.

Certainly, the employment figures of the West African cement plants are generally comparable to those of their size in the US, except in the case of landlocked, semi-desert Niger, where human transport and remoteness might explain, in part, the relatively high labour intensity. Ironically, the two plants in Ivory Coast are by far more capital intensive than their US opposite number.

Finally, economies of scale could be reaped from feedstock raw-materials and utilities (electricity and water). In general, the size of purchases of these inputs may determine or, at least, affect the prices paid by the consumer.

(iii) THE STRUCTURE OF COSTS

Again, the structure of costs in cement production can be more clearly illustrated with the U.K. case, for which detailed data are readily available.

TABLE 7.6

Average Costs for U.K. Cement Manufacturers in 1966

	Average Costs per ton	As % of Total Costs
	£	(Per cent)
Kiln fuel and Electric Power	1.45	25
Wages and Salaries	0.65	11
Maintenance Materials	0.48	8
Works Overheads	0.34	6
Depreciation	0.30	5
Interest at 10% on Capital Employed	0.70	12
Other Costs (including raw Materials)	0.58	10
Delivery (Transport) Expenses	1.01	17
Sales Expenses and Containers	6 0.40	7
	5.90	100

Source: C. F. Pratten, op. cit. P. 90

TABLE 7.7

AVERAGE INPUT COSTS OF CEMENT MANUFACTURE IN LANDLOCKED AREAS OF CENTRAL-WEST AFRICA

Country	Capacity of Plant	Direct Materials		Fuel and Power		Labour	
		Cost Per ton($)	As % of total Costs	Cost per ton($)	As % of total costs	Cost per ton($)	As % of total costs
Niger	30,000	1.60	4.1	17.20	45.8	4.70	12.5
Upper Volta	60,000	1.60	5.3	11.50	37.4	4.60	15.2

Source: E.C.A., Prospects of the Cement Industry in West Africa, July, 1964, p.36.

Here we are mainly concerned with certain items of cost which are of immediate interest to our investigation. These are two, both clearly noticeable from Tables 7.6 and 7.7. The first relates to the relatively small share of raw material costs (excluding fuel) in total. In Britain, this phenomenon is explicable by the fact that the main raw materials used in the production of cement, chalk or limestone and clay, are obtained on the site at most works. The same is not true of most of the works in West Africa, although, as Table 7.7 shows, the landlocked states of Niger and Upper Volta conform to this pattern. Some qualification, however, has to be made here. Cost analysis in Niger and Upper Volta assumed the local availability of raw materials. For the former this assumption has worked (Table 7.7) but with respect to the latter, where production is still at the planning stage, not much can be said. The limestone deposits at Diouri in the north-eastern part of Upper Volta are not easily accessible whilst the deposits of the Boho Dioulasso area have been found to be unsuitable for cement manufacture.[28]

28. See E.C.A., A Development Programme for the West African Cement Industry, E/CN.14/INR/117/Add.1, 1966, P. 46

Thus the low figure for raw material costs in Upper Volta is yet a piece of paper work.

The Ghanaian and Ivorian plants import their raw materials and components from Europe; hence these items are more likely to form a bigger share of total costs than would otherwise be the case if raw materials were locally available. Generally 1.6 tons of limestone and 0.3 ton of clay are required per ton of cement. The transport problem and costs involved in the movement of such bulky materials is of considerable importance, which is why cement is essentially a resource—tied product. In the absence of local supplies of raw materials four out of the five plants (Table 7.2) in the area are located very near the coast to reduce both the transport costs of raw materials and the cost of distributing the final product since the major consumption points (cities) in this region are not very far from the coast.

Although, in terms of pure location theory, cement should be passed as a resource-based industry, the share of distribution to total production costs is quite considerable (Table 7.6). Indeed, both elements of transport costs exert considerable influence on the unit price of the final product. The import prices of clinker ground in the region vary according to the general economic situation, conditions and the sources of supplies; the average c.i.f. price varying between a low of $12 and a high of $15 per ton.[29] Of this transport costs account for $4 per ton, though variable according to origin. As clinker is

29. Ghana seems to be the exception. Because a Norwegian cement - manufacturing group has an interest in the factories at Tema and Takoradi, the clinker reached the Ghanaian works at $10 a ton. Despite this Ghana's ex-works price ($27.0 per ton) is not cheaper than the Ivory Coast's price of $26.5 per ton. However, dumping tendencies likely to have adverse effects on the price of cement must be kept in check. In 1967, Israel sold 124,000 tons of cement to Ghana at $6.2 per ton (see E.I.U. & Associate, op.cit, Vol.II, P.439).

exempted from customs duty by countries which import it, freight charges must be the major contributory factor to the high ex-works price of cement in landlocked Niger (See Table 7.8).

Unlike clinker, cement is protected in GECS. In Ghana, it is subject to duty at $35 a ton (about 30% of the c.i.f. price). In the countries of the Entente, the total customs duties and labour dues are 40% in the Ivory Coast, 51% in Upper Volta, 40% in Niger, 54% in Dahomey, 35% in Togo. The effects of these duties are reflected in the price differentials both within and between the countries shown in Table 5.9. But it is not duties that more than double cement prices in Niger; it is freight charges.

TABLE 7.8

CEMENT PRICES IN CENTRAL-WEST AFRICA

		Per Ton
Ivory Coast, Abidjan	Ex-works	$26.5
	Whole-sale local cement	$28.6
	" " imported "	$30.0
Upper Volta, at Bobo-Dioulasso	" " " "	$58.0
Niger	Ex-works, Malbaza	$56.0
	Niamey wholesale (local or imported)	$66.0
	Zinder " " "	$62.0
Dahomey	Wholesale	$33.4
Togo	Wholesale	$32.5
Ghana	Ex-works	$27.0

Source: E.I.U. & Associate, op.cit. (Vol, II, P. 439)

According to the United Nations Economic Commission for Africa,[30] to transport a ton of cement from the port of Cotonou (Dahomey) to Niamey (Niger), a distance of some 1,000 km (625 miles) the freight charges are more than twice the c.i.f. price of the commodity at Cotonou. The prices noted in the above table bear eloquent testimony to this point.

The reasons why the transportation and handling of imported cement (both finished and in the form of raw materials) in the countries of West Africa are so expensive are not hard to find, especially in the land-locked countries. To start with, all the means of transport have high freight rates. Maritime transport, although the most suitable for such a bulky material as cement, becomes costly due to high terminal charges; the underlying cause being the inadequacy of port facilities. Coastal sea transport is expensive because of the small volume of coastal trade, and in any case this means of transport is not available to land-locked countries.

All the important ports of the area (Abidjan, Tema, Takoradi, Lome and Cotonou) are linked to the interior by rail lines. But only the Abidjan lines cross a national frontier into Upper Volta. Thus, unlike theEast African Economic Community members, there are no rail linkages connecting all the six countries. Such linkages would have rationalised transport and reduced costs. Road transport, which is far more expensive (Table 7.1) than rail transport, is the most widespread means of distributing cement. River transport, though slower than road and rail traffic, is comparatively cheaper and promises to be an important means of transport in the future. Even so, until substantial progress has been made towards the increase of the navigable lengths of the rivers of the region, this will remain a pious hope.

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30. UNECA, Op.Cit., P. 32.

It follows from the foregoing that transport costs are an important factor influencing not only the unit price but also the location and size of cement works.

The second important cost element in cement production concerns the ratio of fuel and electricity costs to total costs. Tables 7.6 and 7.7 show that fuel and power inputs represent a substantial share of aggregate operating costs in the manufacture of cement. But it may be that Table 7.7 exaggerates this point on two main grounds. First, the fuel and power supplies in the landlocked countries of West Africa are not very typical of the general supplies in the region. Certainly, power and fuel supplies in Ghana and the Ivory Coast have always been better, both in terms of volume and price, than either in Upper Volta or Niger.[31] Secondly, the ECA study on which the Table is based was made in the early sixties and therefore seems to be largely out of date. Table 7.6, although dealing with UK, seems to be much more indicative of the share of fuel and power in production costs. However, the cardinal point still remains that the power and fuel input co-efficients of costs in cement production are high.

The cost of fuel is by far the major item in the component[32] and appears to account for over two times the cost of power. But we consider power tariffs first. A Table of comparable electricity tariffs is provided below.

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31. Table 7.9 gives a more up-to-date, comparative, electricity charges in the region. The average high prices in Niger and Upper Volta confirm our impression that the two land-locked countries could be treated as high-cost producers.

32. This is mainly due to the large quantities of fuel required. Generally 200-250 kg of coal and 250-300 kg of oil are projected per ton of cement produced. A breakdown of fuel consumption prices on inter-country basis is not readily available.

TABLE 7 . 9

COMPARATIVE TABLE OF ELECTRICITY TARIFFS[a] - HIGH TENSION - 1967

	Ivory Coast	Upper Volta	Niger	Dahomey	Togo	Ghana
Fixed annual charges per KWh in ₡	11.9	11.5	14.1	28.8	18.8	7.2
Proportional tax per KWh	1.56	7	5.1			
Used, in cents per KWh	3.56	7.53	9.4	5.4	5.6	1.6
Average price per KWh, including fixed charges and proportional tax in cents per KWh	4.13	8.0	9.2	7.2	6.8	2.1

Note: a = charges here apply to industrial uses.
Source: E.I.U. and Associate, Op.cit. (Vol. 4, P.15).

The relative cheapness of power in Ghana (Table7.9) is easily understandable. The Akosombo Dam Project, opened late 1965 with four generators able to produce a total of 512,000 kilo-watts, supplies electricity to industries at one of the cheapest rates in the world. With the coming into operation of this project the total amount of installed capacity in the country trebled, thus creating excess capacity.[33]

Ivory Coast, too, is meeting its power problem. In recent years, consumption of electricity has grown rapidly at about 30% per annum. Yet production is fairly keeping pace with demand, although prices are not as cheap as in Ghana. Apart from a sharp rise in total production from 276,000 kilowatt-hours

33. The main economic justification of the Volta River Project (VRP) had been the existence of the Volta Aluminium Company Smelter at Tema. In fact, the two projects were inter-linked right from the planning stages and to-day they are inter-dependent, for without power from the Dam, the Smelter cannot operate, and without the Smelter, the Dam cannot pay its way. Current power purchases by the Volta Aluminium Company Smelter (VALCO) amount to over 200,000 KW and this is expected to increase to 300,000 KW by the end of 1972. To meet this and the extension of power supplies to parts of Togo and Dahomey, plans are under way to expand the Akosombo Power Plants generating capacity from 4 units of

in 1966 to 372,000 kilowatt-hours in 1968, outstripping demand, an extensive hydroelectric project - consisting of a large dam, power station and distribution system on the Bandama River near Kossou (Northeast of Bouafle) - was initiated in 1969.[34]

In Upper Volta and Niger - the Societe Africaine d'Electricite (SAFELEC) under its charter of 1964 - has the responsibility for the production and distribution of electricity. Again, the high average prices for the two countries have their roots in high input costs, especially for transport (Table7.9). The state-owned Compagnie d'Energie Electrique du Togo (C.E.E.T.) has the monopoly of power supply in Togo, whilst production and distribution of electricity are the responsibility of the Compagnie Centrale de Distribution d'Energie Electrique (CCDE).

Generally, except in Ghana, the cost of electricity is still very high. It is even prohibitive in four of the five countries of the Entente (Ivory Cost excepted) for medium-size electricity consuming industries. And an improvement in tariff rates appears difficult in the countries of the interior. On the other hand, Togo and Dahomey would be able to benefit from Ghanaian supplies with more acceptable prices. The prospects that the former would buy electricity from Ghana are, indeed, good at the moment,[35] and this will render the Volta Dam Project more viable.

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512 M.W. to 6 units of 768 M.W. (See C.B.S., Economic Survey, 1969, P.80). Thus at its maximum level the VRP's generating capacity would be equivalent to about 80% of Nigeria's Kainji Dam Project of 960 M.W.

34. See IMF, Op. cit., P.250. One Company, Energie Electrique de la Cote d'Ivorie, has the monopoly and distribution in Ivory Coast.

35. The Volta River Authority (VRA) - a statutory body invested with the full powers to generate and distribute electricity in Ghana from the Dam - has received a loan of $1.75 million to cover the cost of constructing 180 miles transmission line to the Republics of Togo and Dahomey, and its related engineering services, as a result of agreements reached in August, 1969 between the Volta River Authority and the Governments of the two Republics for the supply of electricity (CBS, op.cit., P.80. 1969). VRA will construct a 161,000 Volt transmission line up to Togo border and will hand the supply over to the

Turning now to the costs of hydrocarbon, the picture is even more serious. Only two (Ghana and Ivory Coast) of the six countries have their own refineries. Of the other four one (Upper Volta) gets its supplies of refined petroleum from Ivory Coast while the others import their oil from outside the region. Ironically, the Ghanaian refinery at Tema operates at 60% of capacity. This anomalous situation is likely to continue as long as the large margin of unused capacity (40%) remains untapped. The Abidjan refinery already operates at full capacity and cannot any longer meet the expanding needs of Upper Volta which it had been supplying. And because of transport costs, especially given the inability to import from nearer sources, current prices in Upper Volta and Niger are naturally higher than in the other countries of the region.[36]

Of course, it must be equally noted that prices in Ghana are markedly lower than those in the Ivory Coast, Togo, and Dahomey. For petrol, kerosene and gas, all prices are slightly lower in Ivory Coast than in Togo and Dahomey, if only because transit fees are collected in the latter countries by the storage companies.

On the whole, the problem of power and fuel supply viewed from regional integration standpoint could eventually provide an opportunity for a reduction in tariffs for industrial uses, if the existing capacities could be adapted to the needs, and fully utilised by the countries, of the region.

Communaute d'Electricite du Benin at that point. This supranational authority will be responsible for transmitting the supply across Togo and Dahomey and handing over to the local distribution companies (See E.I.U. - SEDES, op.cit., Vol. 1, P. 27)

36. It is significant to note that, at least as a temporary measure, the handicap of high oil transport costs has encouraged the use of groundnut shells as fuel, thereby making commercial use of a by-product hitherto considered commercially without value. But there are long-term plans too. The possibility of supplying all countries in the region from the two existing refineries is under consideration (E.I.U. SEDES, Ibid, P. 29).

To conclude this section, one or two words can be said about the labour component of cost. Costs of production are sensitive to the labour component of cost. But, as shown in Tables 7.3 and 7.7, labour input cost is a decreasing function of the size of operation. In other terms, labour inputs per unit of output fall sharply as scale increases. A United Nations study on West Africa gives a rough indication of production labour requirements as follows:

TABLE 7.10

Annual capacity of plants (in tons)	Number of workers required per thousands tons
50,000	1.4 - 1.7
100,000	1.1 - 1.4
200,000	0.9 - 1.2

Source: Studies in Economics of Industry, UN, 1963.

The above Table (7.10) can really only serve as a rough guide. In the final analysis much will depend on the degree of mechanization and the differences among countries in wages, supply of skilled labour, organizational and industrial arrangements. The most that could be said is that, given the limited scope of labour-intensive forms of technology in cement industry which by implication in the West African context means the employment of a high proportion of skilled (to unskilled) labour likely to be imported from high-labour-cost countries abroad, the ratio of labour component of cost to total remains not insubstantial.

Whatever happens, the growth in demand for cement will continue as demonstrated in Table 7.11. Cement is almost an indispensable material in all types of construction activities. The reasons for this are simple. Because of its special function in feno-concrete construction cement finds extensive utilization in a wide range of structures: from ordinary houses to

TABLE 7.11

Estimates of Cement Requirements in Central West Africa
(in '000 tons)

1966	I C	U V	N G	D A	T O	G H	REGION
Production Capacity (extant)	300	-	47	-	-	-	347
IMPORTS	155	23	6	56	59	527	830
ACTUAL PRODUCTION	110	-	7	-	-	-	117
CONSUMPTION	265	23	13	56	59	527	947
EXPORTS	-	-	-	-	-	-	-
1970 (ESTIMATED)							
PRODUCTION CAPACITY	300	-	47	100	-	700	1,147
IMPORTS	100	30	-	5	75	10	220
ACTUAL PRODUCTION	300	-	35	80	-	590	1,005
CONSUMPTION	400	30	25	70	75	600	1,200
EXPORTS	-	-	10	15	-	-	25
1975: Estimated Consumption	620	45	30	100	105	1,000	1,900
1980: Estimated Consumption	800	60	50	140	150	1,200	2,400

Note: The various projections of demand for cement in the countries of West Africa made by the ECA have contained elements of upward bias (see ECA, "Prospects of the Cement Industry in West Africa" E/CN.14/INR/75, 1964 and "A Development Programme for the West African Cement Industry" E/CN.14/INR/117, 1966. But the above Table has utilised more recent data.

Source: E.I.U. and SEDES, op.cit. Estimates for 1980 were based on the projected rate of growth of demand (by this source) of between 7 and 8% during the 1970s.

multi-storey buildings. It resists chemical, vermin, weather and other similar attacks which undermine the durability of construction materials in general.[37] Furthermore, it displays properties which makes its utilisation relatively more extensive than other structural materials such as steel and timber. It follows therefore that in a developing region where industrialisation is top on the priority list extensive utilisation of cement in the construction of factories is to be expected. Indeed, the high rate of growth of cement consumption as observed in Table 7.11 tends to confirm the general notion that there must exist a close correlation between the rate of consumption of cement and the rate of economic expansion.

2.3 CHEMICAL FERTILISERS (I.S.I.C. 311) (S.I.T.C 561)

(i) PRODUCTION PROCESSES

The characteristics of the fertility of West African soils show that the organic matter content and exchange capacity of these soils are generally very low. As a remedial solution, fertiliser application would supply the missing nutrient requirements of plants in this region. Potassic, nitrogenous and phosphorus fertilisers are mainly required to meet the soild deficiences.[38] And the production of these fertilisers would, a priori, be much more protifable on a regional framework.

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37. See, ECA, "A Development Programme for the West African Cement Industry", E/CN.14/INR/117, 3 August 1966, P.34-42.

38. ECA, Soil Fertility and Fertilisers in West Africa. E/CN.14/INR/70/Rev.1.

The manufacture of fertilisers in Central West Africa is yet at its very early stage. So far only one factory has been built at Abidjan (Ivory Coast); a second fertiliser factory at Koeme (Togo) is still in the planning stage. The construction of the Abidjan plant was reported in 1968 (investment 1,500 million francs CFA) and the plant was expected to go into production in 1970.[39]

In the first stage, the Ivory Coast factory will produce:-(a) ammonium sulphate from liquid ammonia and sulphuric acid, the latter being produced on the spot with imported sulphur; (b) single superphosphate from natural phosphate from Togo and sulphuric acid; and (c) binary and ternary fertilisers from the plant's own or imported simple fertilisers. The projected production capacity during the first phase comprises 20,000 tons of ammonium sulphate, 12,000 tons of single superhate, and 30,000 tons of binary and ternary compounds.[40] Weighed against the Ivorian total consumption of 53,000 tons in 1970/71 (Table 7.12), the factory cannot cover all the needs of the domestic market and it will still be necessary to import some fertilisers to be used unprocessed. It therefore follows that the Ivorian factory will not apparently compete with the project planned in Togo which is intended primarily for the production of triple superphosphate for export outside the region.

(ii) THE DIMENSIONS OF SCALE

The output of particular products over time, the size of plants and the size of firms are generally the most important dimensions of scale for purpose of achieving economies of scale in fertiliser manufacture.[41]

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39. ECA, Summaries of Economic Data: Ivory Coast, 1970. P. 10.
40. E.I.U. and SEDES, op.cit. P. 408 (Vol.11).
41. C.F. Pratten, Op. cit. P. 40

Furthermore, scale economies could be enchanced by grouping plants together to use common services and facilities and by linking the production of various chemicals in one plant to avoid the duplication of equipment.

Because different West African plants and soils, as noted above, require different fertilisers manufacturing plants must be designed to adapt easily to the needs of the market in order to keep pace with the foreseeable changes in the fertiliser formulas appropriate to each crop or soil. For instance, single superphosphate is only used for groundnuts and only in the dry savannah area where it helps to remedy the lack of sulphur. Triple superphosphate is almost exclusively used for palm-trees and, similarly, ammonium phosphate is the main component of binary NP mixture widely used for cotton crops - to mention a few (NIU and SEDES, Vol.11, P.411). Thus, to fully exploit the economies of scale long-term output capacity of each product has to be expanded - involving the expansion of the size of plants or firms or both.

In the particular circumstances of West Africa the pattern and direction of expansion would be dictated by the structure of future demand. Table 7.12 depicts the future trend in demand. It can be seen that the consumption of different types of fertilisers[42] varies between different countries due to differing soil conditions; and that the scope for economies of large scale production is good. Total present consumption level will more than double over the next five years and will quadruple by 1980. This shows a remarkable growth - indeed an admirable take-off in the use of fertiliser in central West Africa.

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42. N = Nitrogenous; P. 205 = Phosphatic; K_2O = Potassic.

TABLE 7.12

Estimates of Fertiliser Requirements in Central West Africa: 1970/71 1975/76, 1980/81

(in metric tons of Plant Nutrients)

	1970/71				1975/76				1980/81			
	Total	N	P_2O_5	K_2O	Total	N	P_2O_5	K_2O	Total	N	P_2O_5	K_2O
Ivory Coast	53,000	8,300	4,300	14,000	84,594	29,856	22,392	32,344	136,193	48,068	36,051	52,074
Upper Volta	4,000	600	1,000		4,575	1,525	1,525	1,525	13,953	4,651	4,651	4,651
Niger	1,000	150	200		6,103	1,525	3,053	1,525	18,613	4,651	9,311	4,651
Dahomey	10,000	800	1,100	1,900	6,100	1,525	1,525	3,050	18,602	4,651	4,651	9,300
Togo	4,000	650	600	400	4,575	1,525	1,525	1,525	13,953	4,651	4,651	4,651
Ghana	14,000	2,200	1,400	2,200	91,587	30,529	30,529	30,529	147,453	49,151	49,151	49,151
Grand Total	86,000	12,700	8,600	18,500	197,534	66,485	60,549	70,498	348,767	115,823	108,466	124,478
Round Figures	86,000	12,700	8,600	18,500	197,500	66,500	60,500	70,500	348,800	115,800	108,500	124,500

Note: The 1970/71 figures represent actual consumption but the estimates for 1975/76 and 1980/81 are target figures based on the agricultural production targets and the estimated feasibility of the introduction of fertilisers in individual countries backed up by active government fertiliser policy.

Sources: EIU and SEDES, Op.cit., Vol. II and ECA, Op.cit. E/CN.14/INR/70/Rev. 1.

However, a caveat must be entered here. The projected figures in Table 7.12 are based on the hypothesis that official fertiliser campaigns strongly supported by incentives and practical field demonstrations through extension services will persuade local farmers to increase their consumption of fertilisers. If there is no active fertiliser policy on a national scale, the projected future trend in consumption might be reversed. In such circumstances, the operational fertiliser plants in the region might be unable to attain scale economies through full-capacity utilization.

(iii) THE STRUCTURE OF COSTS

Generally, the most important features of the structure of costs for chemical industry of which fertiliser is a part are:- (a) direct labour costs, (b) research and development expenditure; (c) selling and marketing costs; and (d) transport costs. We shall now consider the extent to which these costs apply in the manufacture of fertilisers with particular reference to West Africa.

The cost of direct production labour comprises: net salaries paid to workers; required social payments; and all other benefits, such as salaries in kind, housing, or meals. As in cement manufacture (Tables 7.3, 7.7 and 7.10), labour input cost is a decreasing function of the size of operation. However, the share of direct production labour in total production costs in the manufacture of fertilisers in the region depends not only on the size of plants but also on the types of workers and the processes in which they are engaged and on whether they are imported or locally recruited. There are a number of labour intensive activities in fertiliser production such as testing and packaging operations. To the extent that a chosen technical feasibility co-efficient permits, the utilization of cheap labour might further lower unit costs.

Expenditure on research and development is not expected in the immediate future to form a substantial part of fertiliser production costs in Central West Africa.[43] This is mainly because it has been historically easier and cheaper for countries in their early stages of development to borrow advanced technology from the more advanced countries, though the adaptation of imported technology to suit African conditions may require some research.

The case of selling and marketing, whose costs are also quite variable, presents a different picture. Because the expansion of fertiliser consumption within GES depdnds largely on the success of a massive population campaign outlay on selling and marketing of this commodity would be quite considerable. Both the state and the fertiliser producers will find sufficient scope for important contribution to this sales campaign.[44]

Official bodies or agencies could concentrate on research on soil fertility and fertilisers - designed to increase land under cultivation - and extension services. Also a price subsidization scheme for fertilisers is probably the most efficient method in the hands of the government to increase their use. Happily enough, various forms of subsidy already exist in certain parts of the area, especially for cash crops. Cotton cultivation in the Ivory Coast as well as cotton and groundnut production in Niger benefits from large subsidies under the EDP production assistance programme. The Ghana government

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43. Even in UK, where I.C.I alone invested 30 million annually during the mid-sixties in research and development, total expenditure on research and development in relative terms is quite small. For the UK chemical industry as a whole, research and development expenditure represented only 2.5% of sales in 1968 and no more than 5% of the value added by the industry (see C.F. Pratten, Op.cit., p. 41)

has very recently established a subsidy amounting to 60% of the fertiliser purchase price.[45]

Private fertiliser producers on their part will be concerned mainly with publicity and the basic organisation of fertiliser supply to the farmers. Viewed against the background of the underdeveloped state of transport and credit facilities in the region fertiliser distribution could be all the more an expensive operation. Apart from publicity and advertising costs, producers render some services to their customers. Private firms can provide experimentation and demonstration courses for farmers and they can develop new markets for their products. Sales could sometimes be organised on a credit basis. And, where a public agency cannot set up a revolving purchasing fund to encourage consumption by small farmers, firms could step in to offer such a service. Thus, in general, marketing overhead[46] is a vital portion of production cost.

Finally, we come to the most important cost item of all--transport. Transport costs of course vary, not only with the varying properties of fertiliser products but also with the geopraphic distribution of markets.

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44. Here, as in other branches of economic activity in LDCs, the dividing line between the role of the state and that of the individual producer firm is blurred. In advanced capitalist countries, the state is unlikely to be involved under normal circumstances in a sales campaign for the product of a particular private producer. But because of the obvious weaknesses of the socio-economic infrastructure in LDCs the Schumpeterian model does not fit; instead we find the state intervening from time to time as the agent of development and progress (see H.C. Wallich, "Some Notes Towards a Theory of Derived Development" in A.N. Agarwala, et al, (eds.), The Economics of Underdevelopment. OUP, 1963, P.189).

45. EIU and SNDES, Op.cit. Vol. II, PP. 402 - 405

46. In Latin America the average share of marketing overhead of chemical fertilisers is about 25% of production cost (M. Carnoy, Op.cit. P.41).

Like cement, fertiliser prices are markedly lower in the coastal ports than in the landlocked areas mainly because of the cost of transport. In 1968, the price of imported ammonium sulphate was $52 a ton c.i.f. at the coastal ports but $80 a ton in Upper Volta, $100 to $140 a ton in Niger. Ironically enough, the savanna countries with their poorer soils need more fertilisers than the coastal areas. Consequently, fertiliser consumption on anything approaching the expected level requires government subsidies in these savanna zones.

Indeed, it could be said without exaggeration that trade possibilities in fertiliser products within the central-west area of Africa hinges on transport improvement. Consider this. Freight from Abidjan to Accra, Lome and Cotonou costs the same - about $12 a ton but the cost of transport from the same point by rail as far as Ouagadougou and then by lorry to Niamey (Niger) amounts to $80. This high cost results from the expenses and formalities of transit through Upper Volta. By lorry, the same transport costs could be reduced to $60 a ton.[47] If one takes into account the fact that the operational ex-factory price of fertilisers at the Abidjan plant is estimated at between $48 and $52 for simple fertilisers and between $72 and $92 a ton for compound fertilisers,[48] then it is difficult to see how the Abidjan factory could compete on an even keel with imports. Even so, the coastal countries in the east of the Region could be supplied from Abidjan only if a partial equalisation of ex-factory prices was made together with a reduction of freight cost which could result from the creation of a coastal tramp shipping service.

47. EIU and SEDES, Op.cit. P. 410

48. Ibid.

However, time appears to be on the side of intra-regional production of fertilisers. As we have demonstrated in Table 7.12, the future trend in consumption is very promising; and increased attention is being directed to the construction or improvement of six international road links affecting the Entente states and Ghana,[49] especially the one along the coast between Abidjan and Ghana. The expected upswing in future demand coupled with further transport development would not only permit large scale production but faster and cheaper transportation, all leading to lower transport costs per unit of output. Furthermore, given the prospect of intra-regional tariff cuts on intra-regionally traded commodities, fertiliser production within the area would prove reasonably competitive.

2.4 LEATHER AND SHOE INDUSTRY (I.S.I.C. 291)

Among the industrial products which could benefit from a trade liberalization scheme within GECS is footwear. For one thing, shoe manufacture responds to the economies of scale. The most important dimensions of scale are the length of production runs and labour productivity.[50]

The primary market for goods produced by the leather and shoe industry is in the form of footwear. Others, such as travel goods and garments, have at present a very limited market in West Africa. For that reason, this discussion is confined to footwear.

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49. See ECA, Report of the Second Meeting of the Technical Committee of Experts, Tunis, February, 1971 (E/CN.14/512-13), paragraph 153. Indeed, the Abidjan plant needs other Entente and Ghana fertiliser markets to operate from the start at 80 or 90% of its capacity (EIU and SEDES, op. cit., P. 413).

50. C.A. Pratten, op. cit, P. 246.

Presently, footwear consumers in the region are restricted to only a small segment of the population. Indigenous people outside the cities and outside the money economy either do not wear shoes regularly or they use home sandals. On the other end of the income scale, resident Europeans and other foreigners time their footwear purchases to coincide with travel to their home country. This virtually leaves the comparatively small group of indigenous wage earners and urban residents as the major market for foot-wear.

Data on current consumption of footwear are shown in Table 7.13. It is evident from the Table that the exchange of shoes within the zone corresponded to only 10% of their total consumption whilst imports from outside the Entente accounted for one-third. Local production is mainly concentrated. Of the 6,432,000 pairs consumed in 1967 the Ivory Coast produced slightly over 51% locally, most of which came from its BATA Company at Abidjan.

TABLE 7.13

ENTENTE FOOTWEAR MARKET, 1967

IN PAIRS	IVORY COAST	UPPER VOLTA	NIGER	DAHOMEY	TOGO	ENTENTE
LOCAL PRODUCTION	3,450,000	-	200,000	-	-	3,650,000
IMPORTS WITHIN ENT.	-	146,000	200,000	127,000	74,000	547,000
IMPORTS FROM OUTSIDE ENTENTE	1,153,000	122,000	518,000	80,000	362,000	2,235,000
TOTAL CONSUMPTION	4,603,000	268,000	918,000	207,000	436,000	6,432,000

Source: Bulletin De L'Afrique Noire, No. 586 (1970).

The increasing monetisation of the Entente economies has demonstrated itself in many ways. The increase in demand for shoes is one. In response, production is growing too. By 1968 new shoe factories had been built; the SONIPLA at Niamey (Niger) (Capacity: 360,000 pairs p/m) and the plastic plant of Upper Volta (MPHV) at Bobo-Dioulasso (Capacity: 80,000 pairs a month). Domestic consumption in the Ivory Coast alone had shot up to 6 million in 1970, with domestic production accounting for 70%[51]

In Ghana the supply of footwear has maintained a steady upward trend. In fact, the output of shoes has more than doubled in two years. In 1967 the value of gross output of shoes was U$1.8 million but by 1969 it had rocketed to U$4.3 million.[52]

A study of the trends in demand and supply of footwear in West Africa has been made. Based on a set of assumptions regarding increases in per capita income, population growth and expected decreases in the unit price of shoes due to increases in the amount and efficiency of domestic production, the study made market projections for 1975 and 1980. The results are tabulated below (Table 7.14). The projections assumed a per capita income growth of approximately 2% per annum, on top of a projected growth rate in population of nearly 3% per annum. It was assumed that increased domestic production would continue to reflect itself in lower per-unit prices for shoes, which would - in turn - enable more of the low-income population outside the wage-earner group to become purshasers of commercially produced footwear.

51. See Marches Tropicaux Et Mediterraneens, "Ivory Coast, 1960-1970: Ten years of Economic and Social Development", No.1355, 30 Oct. 1971, P.73 (SPEcial English Edition).
52. Government Printer, One Year Development Plan, 1970-71, Accra, 1970.
53. ECA, Report on Prefeasibility Study of an Expanded Leather and Shoes Industry in West Africa to 1980, 1966, E/CN.14/INR/140

The overall average growth rate derived from the three variables noted above is 7% per year. Rates vary from a low rate of 4% for the relatively low per capita income countries (such as Niger and Upper Volta) with no significant domestic footwear production to a high rate of 9% for the relatively rich countries (like Ghana and Ivory Coast) with high per capita income and well-established domestic production of footwear.

The utilization of the data yielded by the ECA projections may be liable to some qualifications, nevertheless - until more recent data are available to permit new estimates - they generate useful indicative material for our purpose and would be utilized in our later calculations.

TABLE 7.14

PROJECTED MARKETS FOR FOOTWEAR IN CENTRAL WEST AFRICA UP TO 1980 (In '000 Pairs).

	IC	UV	NG	DA	TO	GH	REGION
1967 (Actual)							
Production Capacity:	4,500	80	360	-	-	2,500	7,440
Consumption:	4,603	268	918	290	436	4,000	10,432
Extra-Regional Imports:	1,103	122	518	80	362	1,500	3,685
1975 (Estimated)							
Consumption:	8,000	2,400	1,600	470	450	5,400	18,320
1980 (Estimated)							
Consumption:	10,000	3,600	2,100	700	600	7,200	24,200

Sources: ECA, Report on Prefeasibility Study of an Expanded Leather and Shoe Industry in West Africa to 1980, 1966, E/CN.14/IND/140, PP. 17 and 25 and Bulletin De L'Afrique Noire, No.586 (1970)

In discussing market trends in the footwear industry in the area, a consideration of the structure of prices deserves special attention. Any definitive statements relating to production costs, of course, must necessarily be linked to a specified product mix, designated location and time period, and an engineering study taking all these parameters into account. This is more so since the Tables above deal with aggregate output figures, without a disaggregation of the products according to types. Even so much wide differences as have often existed between the unit costs of production in the coastal areas vis-a-vis the savanna regions have been mitigated, in this instance, by the comparative advantage which the latter enjoys ever the former due to the availability of hides and skins locally. However, as a first approximation in obtaining a picture of the cost structure, the data in Table 7.15 have been derived.

TABLE 7.15

Unit Cost Structure in Footwear Production in Central West Africa

	Wholesale Price	
	U.S. Cents Per Pair	Percent
Raw Materials	60	75
Interest and depreciation	5	7
Labour, Overhead, Profit	15	18
Wholesale price	80	100
	Retail Price	
	U.S. Cents Per Pair	Percent
Wholesale Price	80	61.5
Distribution	42	32.3
Markup Profit	8	6.2
	US $1.30	100

Source: ECA, Ibid. Estimates are based on 1965 Prices.

To obtain comparative figures for the unit prices of imported footwear of the simple type under consideration[54], calculations based on the data obtained from the ECA study have been made. The results are presented in Table 7.16.

TABLE 7.16

Unite Price of Imported Footwear

Country	Customs Duties (%)	Wholesale (US $)	Retail (US $)
Dahomey	28.6	1.29	1.37
Ghana	100.0*	2.00	2.08
Ivory Coast	28.0	1.28	1.36
Niger	20.5	1.21	1.71
Togo	28.0	1.28	1.36
Upper Volta	25.0	1.25	1.75

*More recently, there have been frequent tariff changes in Ghana.

Source: Computations based on ECA data. The figures for tariff charges were extracted from IMF, Surveys of African Economies, Vol.3, Op.cit.

54. Although shoe manufacturing plants do not usually limit themselves to one type of footwear, the bulk of products concerned here are chiefly simple manufactures including plastic shoes, which are mostly consumed by the peasantry, hence their apparent cheapness.

The calculations presented in Table 7.16 assume an average import value of U.S. $1.00 c.i.f. per pair of shoes for the whole region, subject to differences in transportation or distribution costs and allowing for disparities in customs duties. The price of U.S. $1.00 is based on an ECA estimate covering the area under review.[55] The seemingly low price of this type of shoes depicts their low quality. As noted already, we are concerned not with sophisticated footwear but plain shoes consumed largely by the common man; and they could be produced more easily and cheaply at home.

The first column of Table 7.16 showing the tariff rates indicates that the tariff charges of the GECS on this commodity are fairly comparable, with the notable exception of Ghana and Niger. Ghana's tariff rate is about three and half times more than those of Dahomey, Ivory Coast and Togo, exactly four times more than that of Upper Volta; and roughly five times more than that of Niger. Almost surrounded by the Entente low-tariff states, Ghana's high customs duty on this particular commodity demonstrates the degree of protection accorded to it.

The wholesale prices reflect the differences in tariff charges because in each case the wholesale price incorporates the c.i.f. value of, and the tariff imposed on, the commodity; hence Ghana registers the highest wholesale price in all. With respect to the retail prices, other cost elements enter into the calculations. Markup profit is included in all cases whilst transportation costs are added in the case of the landlocked states of Niger and Upper Volta. This differential treatment is based on the assumption that

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55. See ECA, Ibid.

transportation is a very important element in determining the delivered prices of imports in the inland countries whilst in the coastal areas it can be largely ignored since the major distribution centres are mostly located near or along the coast. This assumption can be criticised on certain grounds, for instance, even in the coastal areas some consumption points/villages are very remote from the centres. Nevertheless, the assumption seems unavoidable where a set of common distribution points has to be chosen for comparability purposes.

Evidently, the inter-country price variations in Table 7.16 are due primarily to differences in tariff charges and distribution costs. The latter mainly explains the relatively high retail price of U.S. $1.71 in Niger and of U.S. $1.75 in Upper Volta but the former is responsible in the case of Ghana. Juxtaposing Tables 7.15 and 7.16, it is easily seen that the price of imported footwear - whether at wholesale or retail - is higher than the locally produced counterpart, a factor which angurs well for the future expansion and development of the industry.

Inter-country comparison of unit costs (Table 7.15) reveals roughly no divergencies because, as noted earlier, the landlocked countries (Niger and Upper Volta) have their own plants which are supplied with cheap hides and leather from local sources. Also the plants in conformity with conventional location theory are located close to the centres of consumption since the final product gains weight.

As for the coastal areas of Ghana and Ivory Coast, better transport facilities and larger markets reduce delivered prices. To some degree, general transportation availability and relative closeness to the markets should remain the governing factors in considering the establishment of shoe factories.

In the case of Togo and Dahomey, though, market size rather than transportation seems to be the major consideration. The anticipated size of the shoe markets in both countries does not appear to justify the establishment of multiple-product economic factories in the near future. Of course, the price differential between the retail price of imported shoes (which is U.S. $1.37 in Dahomey and U.S. $1.36 in Togo) and the estimated retail price (of U.S. $1.30) of the intra-GECS products is only 7 cents and 6 cents in Dahomey and Togo respectively. Yet for large figures the gains from importing from intra-union sources would be quite appreciable since full capacity utilisation is expected to reduce the unit cost of local products and widen the gap between local and import prices. (For instance, a reduction of the local unit cost, by, say 20 cents (i.e. from US $1.30 to US $1.10), through full capacity utilisation and consequent exploitation of economies of scale will for Dahomey and Togo imply savings of up to US $189,000 and US $156,000 respectively by 1980 (Table 7.14)). Besides, intra-zonal production has its other benefits. Evidently, it seems that it would be in the interest of the development of the region if these two countries were to get their supplies from their more viable neighbours within the framework of economic integration.

2.5 PETROLEUM REFINING (I.S.C. 321)

The development of the petroleum industry is a recent phenomenon in the entire West African sub-region. In as much as exploration, in some countries, has lasted for well over thirty years (for instance, in Nigeria since 1937), the production of petroleum was first started in 1958 and up till now production of crude petroleum takes place only in Nigeria. But refineries have been

established in a number of countries.[56]

But within the GECS, two refineries came into operation by the end of 1965. One was built at Tema (Ghana) in 1963; and the other which went into operation in August 1965 was built at Abidjan - Vridi (Ivory Coast)[57]. The Ivorian plant operates at almost full capacity (95% in 1967: Table 7.17) but its total output of refined products has been outstripped by the volume of demand in the Entente. It supplied 76% of the oil needs of the Entente States in 1967 but it has tended to produce mainly for the expanding market of the Ivory Coast ever since. Consequently, the Entente countries which had hitherto imported some of their petroleum requirements from the Ivory Coast would now have to import more oil from outside the ECS and less from within.

Unlike the Ivorian plant, the Ghanaian plant faces a different picture. The latter used only 62% of its capacity in 1968. And as Table 7.17 shows the growth of consumption in recent years has not been very spectacular. Thus, there is a considerable margin of unutilised capacity that could be exploited in the event of intra-zonal trade liberalisation.

To say that the growth of consumption in Ghana in recent years has been relatively slow does not mean that consumption in the region generally has not shown steady upward trend. Indeed, growth has been remarkable (Table 7.17). Petroleum consumption is influenced by the particular circumstances in a country. Some can be mentioned here. The availability of other sources of

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56. Outside the GECS area, countries like Nigeria, Senegal, Guinea, Liberia and Sierra Leone have built their own refineries.

57. The Tema plant is owned and managed by Ghanaian Italian Petroleum Co. Ltd. (GHAIP) whilst the Abidjan - Vridi is owned and managed by a group of Petroleum companies under the name of Ste Ivoirienne de Raffinage (SIR).

energy affects the consumption level of each individual country. This, ironically, operates in two but opposing directions. The availability of substitute energy sources like natural gas reduces the demand for petroleum products (be it gasoline, kerosene, fuel oils, lubricants or asphalt). But, on the other hand, power plants are heavy consumers of these products.

TABLE 7.17

MARKET FOR PETROLEUM PRODUCTS* IN THE REGION
(IN '000 metric tons)

	IC	UV	MR	DA	TO	GH	REGION
1967 (Actual)							
Production Capacity	692	-	-	-	-	1,250	1,942
Actual Production	653	-	-	-	-	714	1,367
Consumption	505	33	46	44	57	698	1,283
1970 (Estimated)							
Production Capacity	725	-	-	-	-	1,250	1,975
Consumption	495	50	55	80	75	764	1,519
1975 (Estimated)							
Consumption	694	70	77	112	105	1,069	2,127
1980 (Estimated)							
Production Capacity	1,400	-	-	-	-	1,650	3,050
Consumption	1,000	120	120	140	130	1,430	2,940

Sources: Extracted from: (a) E.I.U. and SEDES, Op.cit. Vol. 1, PP. 127 - 128 (b) ECA, The Petroleum Industry in the West African Sub-region, E/CN.14/INR/110; (c) Bulletin De L'Afrique Noire, No.591 (March 18, 1970); and (d) Marches Tropicaux et Mediterraneens, No.1355, 30 (October 1970, PP. 119 - 120).

*Chiefly, these include: Gasoline, Kerosine, Fuel Oils, Lubricants and Asphalt.

Another important factor is that the demand for petroleum is income elasticity. The growth in personal income, especially among the high-income group increases the demand for private and transport vehicles which consume fuel. Similarly, the increasing modernisation of African economies has stimulated investments in petrochemical industries. Again, petroleum products furnish part of their inputs. Taking these factors into consideration, the above Table assumed an average rate of growth of petroleum consumption of 7% for the period 1970-80[58].

The existing refineries are quite modern. They have been constructed for easy extension in anticipation of rising demand. As we have noted, the Ghanaian plant has an excess capacity of the order of 38%. Output can therefore be increased to that extent at little extra cost. Even in the Ivorian case where there is virtually no excess capacity, an expansion programme had been launched. In 1972 new installations were being built with a view to raising the production potential of the plant from 725,000 to 1,200,000 metric tons before 1976.[59]

However, pending the completion of the expansion programme at the Abidjan refinery, it follows from the foregoing that the Tema plant can play an important role in fostering intra-zonal trade in petroleum products. The extent to which Ghana can export these products to the Entente Countries at competitive prices will depend primarily upon the comparability of its ex-factory prices with those of the Ivory Coast. Below are comparative data on unit ex-finery prices for petroleum products in the two countries.

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58. ECA, E/CN.14/INR/110, op.cit., P.52. For the world as a whole, a smaller figure of 5% is forecast over the same period. The estimate contains the usual bias due to the assumption of constant co-efficients.

59. Marches Tropicaux et Mediterranees, Op. cit., P. 120

TABLE 7.18

Unit Ex-refinery Cost of Petroleum Products, Valued at 1970 Price - U.S. $ Per ton

	Average	Super 95	Regular	Kerosene	Gas Oil
Abidjan (Ivory Coast)	34.43	42.29	37.89	36.34	21.18
Tema (Ghana)	41.43	47.49	41.58	40.88	35.79
Extra Cost in Ghana	7.00	5.20	3.69	4.54	14.61

Note: The Abidjan prices are for the home (i.e. Entente) market only; Export prices are somewhat lower (e.g. $39 for Super 95).

Source: EIU and SEDES, Op.cit., II, P. 513

The major obstacle which Ghana might face in taking over from the Ivory Coast as an important supplier of petroleum products is glaringly demonstrated above (Table 7.18). The high production cost in Ghana is principally attributable to two main factors. High input costs is one. While the Ivory Coast has been importing the bulk of its crude oil from Gabon, Ghana until very recently depended on the Soviet Union for its supplies of crude oil. The high ratio of freight charges meant an inflated unit cost of delivered crude oil. The other, and perhaps more important, factor turns on low capacity utilisation which has obstructed the operation of economies of scale. It is therefore hoped that access to the Entente market would open the way to full-capacity utilization which in turn would lower the unit cost.

A tentative estimate of the unit export price of the Ghanaian plant assuming full capacity utilization reveals considerable unit cost reductions. Detailed data are not immediately available but Table 7.19 epitomises this point for two refined products (Super and Regular). The table shows the estimated FOB prices of petroleum products exported to various Entente countries from Ghana.

TABLE 7.19

Price Per Ton for Refined Petroleum Exports from Ghana (in U.S. $)

	Upper Volta	Niger	Dahomey	Togo
Super	38.5	-	39.0	39.0
Regular	36.0	37.0	37.5	37.5
Average	37.2	37.0	38.2	38.2

Source: E.I.U. and SEDES, Op.cit., P.514.

These prices would be competitive since they are comparable to the export base prices of the Ivorian plant which already operates at full-capacity.[60] They would also be attractive to Ghana's immediate Entente neighbours thus giving a practical impetus to the idea of integration. It should indeed be possible for GHAIP to sell certain quantities to the Ivory Coast itself, although by 1975 the SIR expansion programme will have been completed. By this time, of course, it is likely that GHAIP will be reaching its capacity limits and in turn, Ghana could well import from the Ivory Coast.

On the basis of the prices shown above (Table 7.19), the following volume of exports to the Entente from Ghana has been estimated. The following are the results.

TABLE 7.20

Possible Annual GHAIP Petrol Sales to the Entente Between 1970 - 75

SUPER 95	UPPER VOLTA	NIGER	DAHOMEY	TOGO	TOTAL
Quantity (tons)	1,328	-	1,310	1,380	4,018
Ex-refinery Value ($'000)	51	-	51	54	156
c.i.f. value ($'000)	93	-	66	64	223
REGULAR					
Quantity (tons)	6,000	13,046	19,218	10,018	48,282
Ex-refinery ($'000)	216	483	721	361	1,781
c.i.f. Value ($'000)	360	913	946	450	2,669

Source: E.I.U. & SEDES, Ibid.

In value terms, these suggested sales amount to $1.9 million at ex-refinery and $2.9 million at c.i.f. prices, each year. Viewed from the angle of their impact on border trade, these figures are impressive.

Of course, it can be pointed out that the Ghanaian prices (Table 7.19) are still relatively dearer than those of imports. As illustrated in Table 7.21, the average c.i.f. price of imported petroleum in Togo and Dahomey in 1970 was $31.00 per ton. In Ivory Coast the figure was even higher at $35.2 per ton; although average cost of crude oil was $19.8 FOB.[61] But, when account is taken of further cost reductions via economies of scale and exchange rate adjustments, Ghana could be expected to be competitive in the production of the commodity and would eventually displaced other extra-union producers.

TABLE 7.21

Average Unit c.i.f. Price of Imported Petroleum Products (Valued at 1970 Prices)
(in ton)

Country	c.i.f. in US $	Customs Duties	Delivered Prices $
Dahomey	31	59%	49.3
Togo	31	57%	48.7
Ivory Coast	35.2	n.a	n.a
Niger	36	-	-
Upper Volta	36	46%	52.6

Source: Computed from figures obtained from (i) E.I.U. and SEDES, Op.cit. and(ii) Marches tropicaux, Op.cit.

60. See, E.I.U. and SEDES, Op.cit. Vol.2, P. 514.

61. Marches Tropicaux et Mediterraneens.

While, still exploring possible cost-reducing methods of production,[62] a substantial reduction of the import tariff of the order of 5l% which Ghana faces in the Entente market would go some way in reducing the delivered prices.

All told - refining, if not very profitable, has other beneficial aspects to the economies of the region. It creates linkages. The backward linkages may be limited because of low inputs of local materials and factors but the forward linkage effects are quite strong. Refineries produce petroleum products which supply petro-chemical industries. Aside from the saving of foreign exchange to which we shall return later, the multiplier effect of salaries and wages paid to local staff could make some positive contribution to the domestic economy. This, of course, is bound to be small since the Ivorian plant employs only 150 people whose salaries amount to $31,000 annually - although Ghana employs more.

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62. This may not be easy in a highly capital-intensive industry.

2.6 POTENTIAL INDUSTRIES FOLLOWING UNION

The foregoing discussion has been concerned primarily with some chosen existing industries upon which economic integration could be initially based. But there are many more potential integration industries - old and new alike - which in order to produce efficiently would need larger markets than provided by the domestic markets in the individual GECS countries.

Until the early 1960s, when the attention of the governments of newly independent West African states turned increasingly to the development of heavy industries, the small size of national markets, so long as industrial development was confined to light consumer goods industries, was not considered a major obstacle to progress. With this shift in emphasis, planners and entrepreneurs, as noted earlier, have had to face the problem of small national markets in relation to the optimum scale of operation of plants. Evidently, the establishment of some large-scale plants in different countries of the region has become a matter of prestige, and governments have sometimes offered incentives to investment in such enterprises in disregard of their countries' development priorities. This trend towards competitive development has encouraged the proliferation of high-cost national plants sheltered by protective devices, especially in Ghana, Ivory Coast and Upper Volta.[63] Thus one of the aims of integration in the area would be not only to enable the members establish new large-scale plants following integration but also to ensure the rationalization and mobilization of the existing level of excess capacity through some form of agreed specialisation.

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63. ECA, Economic co-operation and Integration in Africa, Op.cit., P. 60

TABLE 7.22

Country \ Project	Paper and Board Industry	Bicycle Tyres	Salt	Hand Tools	Cycle Parts	Glucose	Milk Products	Basic Chemical Products	Ceramics
Ghana			X	X			X	X	X
Ivory Coast	X			X			X		X
Dahomey					X				
Togo			X			X			
Niger							X		
Upper Volta		X							

Source: E.I.U. and SEDES, A study of Possibilities of Economic Co-operation between Ghana, Ivory Coast, Upper Volta, Niger, Dahomey and Togo, Vols. 1 - 3, 1970.

In view of this we present in the succeeding paragraphs a brief review of the more important projects which would provide scope for broadening the base of economic integration in the area (see Table 7.22).

(i) PAPER AND BOARD INDUSTRY

Neither cellulose pulp nor paper is presently manufactured in the region. The only industrial activity dependent on this branch of business is the converting of imported paper and board for the manufacture of packaging.

With the exception of the Dahomean plant, all the paper conversion industries are situated in Ivory Coast and Ghana. The largest Ghanaian enterprise (4,000 tons) situated at Takoradi, has a more diversified manufacturing range: packaging cases and cardboard boxes, paper and polythene bags, paper napkins and tissue paper[64]. Ghana has other three smaller plants while Ivory Coast has three, each with a total capacity of 10,000 tons and could supply the entire needs of Ivory Coast and Upper Volta. Surely, all cannot operate economically; hence the different promoters should reach some agreement between them.

On the other hand, the manufacture of paper from pulp and, more still, the production of pulp, would be of much greater economic use: The Ivory Coast has been trying for some years to promote a project in this sector by using the abundant raw materials provided by its forests. But the profit-earning

64. See E.I.U. Op. cit. Vol.3 P. 57

capacity in this case would only appear at a very high level of production - in the region of 150,000 to 170,000 tons of pulp, which would be far in excess of the total intra-GECS demand up to 1975[65]. It is, however, envisaged that, while supplying the raw material needs of the paper conversion plants, part of this will be retained for local paper manufacture.

(ii) TYRES FOR TWO-WHEELED VEHICLES

Ghana and Ivory Coast produce and supply medium and heavy tyres for cars and lorries to their home markets and they are jointly in a position to supply their entire GECS market.

The picture with respect to light bicycle and motorised bicycle tyres is different. The existing market for this commodity offers possibilities for the immediate launching of a production unit. The projected demand for the product in 1975 is of the order of 3,900,000 units (tyres and inner tubes) or 1,800 tons.[66] Three-quarters of this is expected to be consumed in the Ivory Coast and Upper Volta, demand from these two countries being roughly the same; Ghana absorbs less than 1/5 and Togo, Dahomey and Niger, the small proportion remaining.

The high level of demand in Upper Volta and Ivory Coast suggests that it would be economically wiser to locate the factory in either of them. But in the interest of balanced regional development it will be more advisable to locate the new industry in Upper Volta since Ivory Coast qualifies for other projects.

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65. Ibid. P. 58
66. Ibid, P. 61

(iii) SALT

The demand for salt in the GECS countries with the exception of Ghana, has, up to now, been almost exclusively covered by imports from Europe and other sources. Although elsewhere there are several artisan workings of mineral salt or sea salt, Ghana is the only country which possesses large salt pans which are rationally operated on a substantial scale. Production varies, according to climatic conditions, from 30,000 to 50,000 tons per year. Industrial demand is small (2,000 tons) and almost the whole output is therefore destined for food needs.

Given the estimated present and future needs of the whole area (80,000 - 100,000 tons), further investment in this industry is needed.[67] And Togo, like Ghana, enjoys the advantage of favourable climate for the extraction of sea salt. Studies and evaporation experiments have taken place in Togo in connection with the salt project and, once a decision is taken, there will be roŏm for the two producers (Togo and Ghana) in the markets of the other GECS countries. Although, to ensure reasonable profitability of the operation in Togo, markets might be sought in Nigeria as well.

(iv) MANUFACTURE OF HAND TOOLS

The only known project in this field is that for manufacturing matchets in Ghana. It is planned for the domestic market and has a capacity of 1,000 tons per year. If it were expanded to meet the needs of the six countries in the region, its capacity could be doubled (2,000 tons) and it could produce more cheaply.[68]

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67. Ibid P. 47
68. Ibid. P. 74.

Most of the other agricultural tools and various hand tools for use in workshops, on building sites and in the home, represent a market big enough, on a regional level, to envisage manufacture. The main outlets would be in Ghana and Ivory Coast, and since the raw materials and rough pieces would arrive by sea, the industry would necessarily be set up in one of these two countries. But since Ghana has already begun producing matchets, it seems that a factory producing several different types of tools, apart from matchets, should be built in the Ivory Coast to produce for the entire GECS. Each of the two countries would then trade with each other as well as with the other GECS members.

(v) MANUFACTURE OF PARTS FOR CYCLES AND POWER-ASSISTED CYCLES

The assembly plants in the Ivory Coast, Upper Volta and Dahomey are limited to using cycle parts which are almost entirely imported. Some parts are, of course, made on the spot: frames, mudguards and spokes, but all the mechanical parts come from Europe. Certain countries have thus considered local production of the parts used by the assembly plants[69]. Viewed on a national level, this is out of the question if only one country is concerned, since the quantity produced at national level would fall significantly short of that needed to make manufacture feasible. But looked at in the context of the region and taking account of the total requirements of the assembly plants and repair shops, production could be of the order of 2,600 tons by 1975[70], which would certainly justify making the parts locally. Admittedly, demand seems to be greater - at the moment - in the west of the region (Ivory Coast and Upper Volta) but

69. See The manufacture of Cycle Parts in the Ivory Coast, a SEDES report, 1966.
70. E.I.U. et al, Op.cit. P. 75

considering the need for spatial distribution of the benefits of integration the factory should be built in Dahomey.

(vi) GLUCOSE PROJECT

Glucose in the form of syrup is an intermediate product usable by other industries in the region, particularly by confectionery manufacturers whose needs will be around 1,200 tons in 1975[71]. It would seem that a local factory could be competitive at a production level of 1,000 tons a year, but only in special conditions which Togo can offer, that is to say attached to an existing enterprise.

Glucose can be extracted from maize or manioc. There already exists a starch factory using manioc at Ganave in Togo. The production of glucose could be added to this plant involving limited investment ($200,000), very few jobs (20-25) and low overheads[72]. Raw materials should be obtainable from local sources in Togo. However, it might be useful to look for supplementary markets in Nigeria to increase the profitability and further expansion of the project.

(vii) MILK PRODUCTS

The populations of the region consume milk from local herds particularly in the cattle-rearing zones of the interior, but is still small; and the marketing and processing are disorganised. The needs of the urban centres and those of the rural populations in the forest zone are covered by imported milk products. Sometimes these are delivered directly for consumption (tinned milk, cheeses, preparation with a milk base etc); sometimes they are processed and packaged in local factories (one in Ghana, the other in Ivory Coast). The raw material then consists of sacks of powdered milk of European origin. It is envisaged that the inland countries, particularly Niger could eventually provide

71. Ibid, P. 52
72. See Ibid.

the region with milk (both for outright consumption and for industrial use) from improved herds. Already, the UNICEF is assisting in the establishment of a milk factory at Niamey in Niger[73].

(viii) BASIC CHEMICAL PRODUCTS

There is no knowledge of projects of this nature in any of the countries in the area. Ghana is currently interested in establishing a basic chemical plant. It has the raw material, salt, and electric power in great quantity and at low price from the hydro-electric station at Akosombo. The Ghanaian authorities have already received a feasibility report made by a German firm on the project[74] but no information is immediately available on the exact contents of the report.

However, there are clear needs which a chemical plant can fulfil in the region. Regional industries need intermediate chemical products such as soda and chlorine derivatives, DDT, chloride and sodium hydrochloride - and it is possible to find uses for the by-products - calcium carbide, chlorine of lime, sulphuric acid - which would result from such an industry.

(ix) CERAMICS

Ivory Coast and Ghana plan to produce floor tiles and wall tiles, sanitary ware and also, probably, crockery. But, to ensure a profitable production level, it is necessary to go beyond the domestic market within each country. Given the overall regional demand for the above products, which has been tentatively put at 6,300 tons by 1975,[75] it will be economically rewarding to build a regional

73. Ibid, P. 47
74. Ibid, P. 63
75. Ibid, P. 68

factory with a large capacity either in the Ivory Coast or Ghana, while a second one could be built a few years later in the other country.

Basically, both the Ivory Coast and Ghana have deposits of raw materials of a suitable quality and in a favourable geographical position near the main centres of consumption. Indeed, a brief comparison between the two sites showed little to choose between them, although Ghana had a slight advantage where profitability was concerned. The solution obviously lies on the two countries reaching some agreement between them, after consultations with the other GECS members.

From the above brief examination of some of the potential integration industries in the GECS region, one can easily appreciate the role and rational of economic integration. It is, to say the least, important not only to stimulate the growth of new large-scale industries but to promote a more effective and efficient use of the existing industrial capacity in central-west Africa. However, with respect to certain industries, such as iron and steel and some others mentioned above, it may be necessary to seek markets beyond the confines of the GECS either through special inter-governmental arrangements or pursuing an "aggressive" open door policy towards other neighbouring West African States.

CHAPTER EIGHT

ESTIMATING THE REAL GAINS FROM INTEGRATION IN THE GECS

Chapter four discussed the measurement of the effects of economic integration arrangements in LDCs and the methodologies which have been applied in quantifying the gains or losses arising from such schemes. As a point of departure, the present chapter applies the reconstructed and redefined Andics-Desser model in quantifying not the real gains or losses resulting from the establishment of new industries per se but rather those from old and under-utilized plants in which economies of scale exist, which would justify an arrangement for gradual trade liberalization in the products of such industries. Within the GECS area, the obvious - though realistic - assumption is that the demand for the commodities (i.e. cement, fertiliser, shoe and petroleum products) under consideration is given. The main task thus is to explore the effects of trade liberalisation based on these products - if any - on the member state economies and to assess their wider policy value.

1. TRADE LIBERALIZATION

The evaluation of gains or losses from integration could be pursued with particular reference to, at least, two forms of common market, namely: (i) complete liberalization of trade either by way of a customs union or free trade area; and (ii) co-operation for the establishment of selected new industries or the expansion of old but partly used ones whose products would enjoys "free" circulation within the grouping. Evidently, our discussion in chapter 5 on the performance of existing integration schemes in the West African Subregion reveals that the latter has brighter prospect of realisation than the former type

of integration arrangement.[1] Indeed, given the primary desire of many LDCs to "capture the commanding heights"[2] of their economies and to retain a considerable degree of economic sovereignty, the indications, both in relation to existing arrangements, and in new initiatives, are that increasing attention and emphasis are likely to be focused on product—based integration schemes in the immediate future.[3]

Product-based co-operation introduces the issue of product coverage. For the participants, the question of product coverage under trade liberalisation is an important matter indeed. Because any group of countries wanting to liberalise mutal trade as a means of enhancing their rates of economic development might wish to consider in advance whether the linear method or the selective approach to trade liberalization is the right course for them. Under the former method, prospective members of a union agree on across-the-board basis to reduce by a given percentage their individual tariffs, normally when an agreed list of industries to be accorded special treatment has been decided upon. But under the latter, member governments merely indicate their willingness

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1. Conceptually, it may of course be possible to super-impose a co-operation scheme based on the products of specific key industries on an existing customs union or a free trade area without necessarily disorganising the latter.

2. As exemplified in the recent Insurance Amendment Decree whereby all insurance companies must sell at least 40% of their shares to Ghanaians, this old major policy aim has been rekindled in Ghana (See The Financial Times Survey, January 10, 1973).

3. Although "product integration or project co-operation could be viewed as a partial and restricted form of integration or as a "second best" solution, it may be easier to achieve. It may also constitute a preamble to overall integration since it might give rise to forces which would lead the countries concerned to integrate at some latter date.

to reduce tariffs applied to individual commodities and/or to relax non-tariff restrictions if they obtain from their partners concessions on their export products which they consider to be equivalent.[4]

In the context of the GECS where the poorer land-locked countries are somewhat suspicious of the richer coastal states, the item-by-item method, seems more practical and workable than the linear approach. For experience points to the conclusion that some of the relatively less-developed members may not wish to commit their entire industrial development policies to a multinational set-up. For example, the majority of existing industries in the region are to be found in the two most highly populated coastal countries, the Ivory Coast and Ghana, which are also nurturing most of the new industrial projects (Table 7.22). In so far as import substitution of products for final consumption is concerned they are near to exhausting the possibilities of this kind of industrialization within their national frontiers.[5] When they embarked on this policy, they found outlets in the land-locked states of Upper Volta and Niger and to a lesser extent, in Togo and Dahomey, but the latter group, in turn, has set up a certain number of competitive ventures - soap products, beverages, textiles, etc. - so that they are self-sufficient in these products. To this extent the poorer countries have reduced the number of outlets for factories in neighbouring Ghana and Ivory Coast.

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4. See UN ECA, Economic Co-Operation and Integration in Africa, Op.cit., ST/ECA/109, PP. 61-63 and B.W.T. Mutharika, Towards Multinational Economic Co-operation in Africa, Praeger Publishers, London, 1972, PP.210-18.

5. See Chapter six, section 7.

The selective method has other advantages. In view of the limited number of products on which the GECS countries can willingly commit themselves to trade liberalization, they might be prepared to initiate the process even on an ad hoc basis. And a chance of a fruitful exchange of commodities even on a selective basis might lead to measures toward more comprehensive economic co-operation agreements. With regard to those goods that are already subject to tariff concessions or trade liberalization - as in the case of Entente Council with respect to their members - the Entente countries might undertake not to impose any new import taxes or other charges with the exception of charges reciprocally applied on their goods in Ghana. In formulating any trade liberalization agreement, it would also be essential for the GECS members to agree not to apply any other restrictions or prohibitions except prohibitions imposed for such noneconomic reasons as public security, health protection, or public morality. It is assumed that full intra-zonal trade liberalization needs the establishment of a common external tariff not only to buttress it but also to eliminate the intractable problem of policing of the liberalized trade to ensure that goods originating from third countries imported under preferential arrangement are not re-exported to countries outside the zone with whom there are no preferential arrangements. In addition, the products meant to be protected would enjoy adequate and equal tariff protection from the rest-of-the-world.

Surely, the normal procedure for determing the level of the common external tariff--which is to average existing national tariff rates[6] - might not work satisfactorily in the circumstances of Central West Africa.[7]

6. For problems associated with averaging tariffs see chapter six (2.7).
7. UN ECA. Economic Co-operation and Integration in Africa, Op.sit. P. 62

First, this procedure would be difficult to follow in view of the various preference systems in French West Africa. Second, the averaging of existing tariffs would be unable to meet one of the purposes of a common tariff, namely the provision of an adequate degree of protection to the industries whose products are liberalized. Perhaps, a more appropriate procedure in the case of the GECS would be to establish a common tariff on a product-by-product basis in the light of the degree of protection needed by a given industry in its early years of operation. But the conventional method is preferred for reasons of data in this study.

In effect, we are thinking in terms of gradual establishment of trade liberalization in Central West Africa, moving from the present position (of intra-regional trade restrictions and barriers) to a "managed" free trade area based on the products of selected integration industries. Within the context of these products, we are in the realm of free trade which progressively could be more broadly-based. In other words, the present intra-area trade situation, which we can denote as stage I, is unsatisfactory and the concern of this chapter is to evaluate the advantages of advancing from stage I to stage II, which will be characterised by "limited" free trade from where further advancement to stage III, a period of "unlimited" liberalisation of trade and factors in the distant future,[8] can be contemplated.

In practical terms, however, any form of integration package deal method is likely to raise a number of economic and political problems. This viewpoint has been confronted with a good deal of evidence in chapter five.

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8. This study does not cover the 3rd stage.

On the economic side, the development of joint venture raises the problem of the introduction of multinational planning embracing all vital industrial sectors in order to take care of linkage effects as well as reconcile conflicting national interests and policies. But even in countries where comprehensive planning has been adopted by Central Planning authorities, as in some East European countries, it has been difficult to effectively introduce regional planning for purposes of ensuring effective trade liberalization.[9] In some regions of the LDCs where trade liberalization has been experimented upon - such as East Africa and Latin America - member governments have attempted to introduce techniques aimed at avoiding these problems. For instance, the Central American governments adopted a method of allocating at least one multinational industry to each state initially, followed by the subsequent distribution of the remaining list of industries in turn for each country. Although initially this method appeared attractive and successful, in subsequent allocation rounds difficulties arose because the countries still maintained their freedom to select and establish any industries they liked.[10] As already noted, the experience in the East African Common Market has not been markedly different.

On the political front, countries often find it difficult to accept any kind of blueprint for the allocation of basic industries among partner states because this would imply tying their hands in certain areas of vital importance. Naturally, countries would hesitate mainly because of uncertainty as to whether such allocation of industry and the consequent post-integration pattern of trade and production would be in their best interests.

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9. B.W.I. Mutharika, Op.cit. PP. 210-211.
10. Ibid.

In fact, this is also true of advanced countries. It can be contested that the hesitation of a section of the British industry prior to the British entry into the EEC stemmed primarily from uncertainty about the effects of the application of the EEC rules and regulations, the real benefits of enlarged trading opportunities and, even more importantly, the wider structural implications of entry for industry.[11] Where establishing or expanding an already existing multinational industry prima facie appears to jeopardise a national economic interest, the country involved would tend to hesitate to grant the products of the multinational industry free access to its market because of the fear of disrupting economic life.

Thus as demonstrated earlier, the liberalisation of trade in an area, like Central West Africa where countries have different development levels and divergent resource endowments, puts into motion the process of polarisation, a process that gives to those who need relatively more less and ralatively more to those who need less. To forestall this natural process and arrest the disequilibrating mechanism of free international trade, a workable geographically modest integration arrangement in the CECS, should comprise, in addition to an agreement providing for progressive trade liberalization, some - and possibly all, in the long-run - of the following elements: a regional development bank; a regional mechanism for financial settlements and for monetary policy co-ordination; a regime harmonizing incentives for regional and external private investment; an instrument for the promotion of industrial specialisation by

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11. See Derek Ezra, "positive benefits to Industry will largely depend on its own efforts", THE TIMES, January 2, 1973, London. These factors also provided ammunition for the Labour Opposition.

agreement; and a formula for the equitable distribution of customs revenues and other taxes, with special consideration being given to the development needs of the most backward participants. To put it in a nutshell, the thorny question of the distribution of gains and/or losses from integration in a way considered equitable by all the participants must be squarely faced. The discussion of this problem will be the main subject of the next chapter; no more than a mention of the above elements in general terms is intended here. In what follows, attention is devoted to data.

2. DATA and CALCULATIONS

As already stipulated, the empirical estimate of the effects of product market integration which is the main concern of this chapter applies the following algebraic expression.[12]

$$\Delta W = \Delta I - \Delta Y + \Delta F - \Delta K$$

In its original form[13], the Andics and Dosser enunciated the formula as a conditional equation for evaluating the eligibility and feasibility of regionally-based projects. According to them, only those industries whose ΔW is positive would be chosen subject to "distribution" weights. The point of departure in our methodology here is that it applies the above evaluation formula not for screening potential integration industries but for assessing the real welfare benefits - defined as the sum of the values of the above evaluation factors - of already existing and operational industries.[14]

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12. The symbols used in the equation have been carefully explained in the previous chapter and are not repeated here.

13. See Chapter 4.

14. Although by no means complete, there seems to be more information on existing than on planned projects in West Africa. To this extent, it is easier to study the former than the latter. It may be noted here that the Andics and Dosser ran into trouble with data in their application of the model in the Caribbean - hence they stopped short of what their original intention implied (See Andic, et al. Op.cit).

These industries should have capacity for expansion and their products would require access to markets beyond their national frontiers.

In view of the complex nature of the variables involved in estimating the values of the independent parameters, the values of the latter will be estimated separately under appropriate assumptions and later summed up. That is, for each of the four industries studied, we will assess the value of welfare[15] derived by adding up the values of the variables on the right-hand side of the following expression (with the exception of K which would be treated as part of I, though separately discussed for emphasis only (Section 2)(V)):

$$\Delta Wt = \Delta It - \Delta Yt + \Delta Pt - \Delta Kt$$

The results yielded will be totalled for the group and analysed.

Before we proceed further, some general assumptions relating to all the independent variables can now be more formally and explicitly stated, namely: (i) the value of each factor will be based as far as data can permit on a benchmark years; (ii) the four industries of our interest owe their feasibility to the absence of import barriers by all the prospective common market members[16]; and (iii) the estimation of the integration-induced VAD assumes virtual import replacement and full utilisation and/or expansion of existing capacity in the

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15. Welfare could be defined in a variety of ways depending on ones approach. Carnoy's welfare analysis of integration discussed earlier attempts under restrictive assumptions to determine which country or countries within a grouping have an absolute advantage in producing given products for the purpose of arriving at "optimum" location upon which "customs union" price will be determined. Both Johnson and Denison approach welfare effects of integration from the point of view of resource allocation effects of reducing trade barriers (See R.Hilton, Op.cit. P.237). In our case welfare is defined as the improvement in material well-being due to more efficient use of available resources. The measure adopted for this is value Added. But VAD is not all gain. It is by definition the sum of non-industrial costs, labour income and operating surplus. However, in the case of the labour surplus economies we assume that the opportunity cost of extra factors needed to fully utilise capacities which had already been installed would be minimal.

16. In other terms, footloose and shiftable industries, which by definition

industries concerned so as to be able to meet the expanded home demand.

It must however be admitted that, with respect to certain products which are non-homogeneous in nature, the assumption of total import replacement can be challenged, even in highly industrialised countries specialising in the production of such commodities. The production of footwear (one of the industries of interest to us) is a case in point. Footwear is clearly less homogeneous than the other three industries examined in the previous chapter (oil refining, cement and fertilisers). It would therefore ordinarily require a different treatment. But, in our particular case, the types of footwear considered, if anything, are different "brands" of the same type in terms of quality, sophistication and price; hence they can be treated alike. They are worn by the bulk of the population of the region, the exception being those imported by the tiny sophisticated/elite consumers, whose consumption in relation to total in this part of West Africa is more or less insignificant. Even when allowance is made for the small group, its impact on value-added is likely to be very marginal indeed. Even so, while retaining the assumption of total import replacement on the above grounds, the resulting estimate of value-added, for this and other reasons mentioned elsewhere, can only serve as an order of magnitude.

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can be justified by national demand alone, and those industries, which would be primarily export-oriented, fall outside our consideration. As noted at an earlier stage, the economies of scale have their limits but the case for exploiting scale economies is compelling here. For opinions on the limits of scale economies, see H.G. Johnson, "The European Common Market - Risk and Opportunity?", Weltwirtschaftliches Archiv, 1957.

(i) ESTIMATE OF VALUE - ADDED

There are at least two alternative approaches to the estimate of value-added (VAD). One involves the employment, as indicated previously, of a complete input-output system. The second alternative method entails the application of the standard equation:

$$V_j = X_j - \sum_{i=1}^{n} M_{ij}$$

to a subset of industries, provided data on inputs into such industries are available.[17] The former procedure is prefereable since it is conceivable that the effects of integration will operate through all sectors by way of inter-sectoral relationships. But the great disadvantage of a complete input-output system is the dearth of upto-date data, not to mention its complexity. Of the six countries of our immediate interest, only Ghana and Ivory Coast have constructed input-output systems of any sort. The first input-output system for Ghana was a 10 X 10 transactions table. It was prepared in 1960 under the sponsorship of the Ghana Academy Sciences. In addition, tables of the order of 14 X 14 were constructed for 1966 and 1968 by the Central Bureau of Statistics for the use of the Planning Commission. The latter tables which were regarded as "no more than preliminary rough estimates" have not been o officially released.[18] As for the Ivory Coast, which established its first input-output table in 1958, the problem is much the same. Although since 1960 annual tables have been compiled on the basis of annual survey of enterprises, it is not however clear whether the tables established annually after

17. See. G. Basevi, Op.cit., P.148 (footnote 4). Also see H.G. Johnson, "The Theory of Tariff Structure, with Special Reference to World Trade and Development," in Trade and Development. Geneva, 1965.

18. ECA, Problems and practices of African Countries in the Compilation of Input-output Tables, E/CN.14/NAC/43, 1 June, 1973, P.3.

1960 represent an updating of the table for that year. The input-output tables for 1960 and 1965-69 have been established at 1965 constant prices but the study is not at present distributed, pending a review of the methods of calculation employed.[19] If we must employ a complete up-to-date input-output system for each of the six GECS countries it will mean constructing six different tables. Unfortunately, limitations of time and resources prevent this.

In these circumstances, it is necessary to limit ourselves to the perspective assessment of the effects of integration on the manufacturing sector alone which in any case monitors the pace of structural transformation of LDCs economies more than any other single economic sector. This would imply the adoption of the second approach. Because the method is not only more realistic but also more likely to utilise more recent figures. The application of this method has yielded the data presented in Table 8.1.

Pending the availability of more refined industrial census data, the Table shows the corresponding values of output and VAD in each industrial subgroups under consideration. The figures were computed, in the case of Ghana, by the Central Bureau of Statistics (CBS) and, for the Entente States, by the Economic Commission for Africa.[20] Taking 1969 as a benchmark year, the figures in each subsector of the four industries (291, 311, 321 and 334) in which we are primarily concerned were obtained. For purposes of sensitivity analysis, two sets of figures were used: 1969 figures and 1965-69 average figures. The advantage of the latter is that it provides weighted trend figures for comparison.

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19. Ibid.

20. Central Bureau of Statistics, Economic Survey, 1969, PP. 76-77 and ECA, Summarises of Economic Data, 1969-71 on individual Entente States.

TABLE 8.1

GHANA-ENTENTE: PRE-UNION VALUE-ADDED DATA ON THE SELECTED INTEGRATION INDUSTRIES (U.S. $mn.)

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ISIC CODE SUBSECTOR	GHANA			IVORY COAST			NIGER			UPPER VOLTA			DAHOMEY			TOGO			REGION: VAD AS % OF OUTPUT
	OUT	VAD	%	OUT	VAD	%	OUT	VAD	%	OUT	VAD	%	OUT	VAD	%	OUT	VAD	%	
291 Manufacture of Footwear	4.3	1.9	44.0	3.6	1.6	44.4	0.3	0.15	50	0.1	0.04	40	-			-			45.0
311 Manufacture of Chemical Fertilisers	4.7	1.9	41.0	4.1	1.6	39.4	0.1	0.03	30	0.3	0.1	25	0.3	0.1	29.	0.3	0.1	33	39.9
321 Manufacture of Petroleum Products	29.6	27.2	92.0	22.5	21.7	96.4	-	-		-			-			-			93.8
334 Manufacture of Cement	12.8	5.5	42.9	8.1	3.5	43.2	1.2	0.4	34.6	-			3.3	1.4	42.4	-			43.1
Sub-Total	51.4	36.5	71.0	38.3	28.4	74.0	1.6	0.6	38	0.4	0.14	35.0	3.6	1.5	42	0.3	0.1	33.3	71.0
All Other Manufacturing	211.5	100.8	48.5	259.9	88.8	33.9	37.8	8.0	21.8	18.3	4.08	22.4	66.6	0.5	9	24.1	9.4	39.0	37.8
Grand-Total	262.9	137.3	52.2	298.2	117.2	39.3	39.4	8.6	21.8	18.8	4.2	22.3	10.2	2.1	20.6	24.4	9.5	38.9	42.6
	1	9	6	5			-	1		9	6		9			(AVERAGE)			
291 Manufacture of Footwear	3.0	1.4	46.7	3.6	1.6	44.4	0.3	0.15	50	0.1	0.02	20	-			-			45.7
311 Manufacture of Chemical Fertilisers	4.0	1.7	42.0	3.9	1.4	35.9	0.1	0.02	20	0.4	0.1	25	0.2	0.2	28.6	0.3	0.1	33.3	39.7
321 Manufacture of Petroleum Products	5.9	5.0	84.7	5.6	5.1	91.0	-			-			-			-			87.8
334 Manufacture of Cement	6.1	2.7	44.3	4.0	1.8	45.0	1.0	0.4	42.3	-			3.3	1.4	42.4	-			43.7
Sub-Total	19.0	10.8	57.1	17.1	9.9	58.0	1.4	0.57	41.3	0.5	0.3	60	4.0	1.6	40	0.3	0.1	33.3	55.0
All Other Manufacturing	164.7	90.2	55.1	208.8	77.8	37.4	.....			.....			.....			.....			
Grand-Total	183.7	101.0	55.0	225.7	87.7	38.9	.....			.....			.....			.....			

Note: (i) OUT = Gross of Industry; VAD = Valued Added; ... = Not available; - non-existing industry.
(ii) The sources given below did not indicate specifically the tariff rates implicit in their estimates and frequent tariff changes have not been uncommon in this region. But it is reasonable to assume that they applied the current national rates with some modifications, as the ECA source noted, to render the results comparable.

Source: Compiled from data obtained from the following: (i) Ghana, Economic Survey, 1969, PP. 76-77; (ii) ECA, Summaries of Economic Data, 1969-71 and (iii) Section 2 of chapter 7 of this thesis. The usual warning are relevant that all economic data are subject to errors and details may not add perfectly to total because of rounding.

As Table 8.1 illustrates, the values of gross output and value added - all valued at current pre-union prices[21] in individual countries - of each industry are shown against it. The ECA and CBS, as mentioned above, applied the standard input-output equation and utilised the current pre-union unit prices in individual countries in their calculations. The output values were obtained by multiplying the volume of output by the unit values. The VAD values were similarly derived whilst their co-efficients were expressed in percentage. The inputs in each subsector of the industries were calculated by subtracting the VAD from the values of output.[22]

The ECA-CBS method of estimate and its implied assumptions affect the quality and usefulness of the results. Aside from the usual statistical imperfections in this area of analysis, one or two weaknesses of the VAD estimate can be noted. The use of current unit prices in estimating gross output and VAD is more often than not likely to exaggerate their real values in individual countries where inflation existed. This, in turn, reduces

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21. The CBS and ECA sources referred to in the preceding footnote did not specify the prices used but it is unlikely that they were uniform throughout the six different countries. In our own estimates for 1975 and 1980, we shall indicate the unit prices we wish to apply.

22. We are of course mainly interested, in the relationship between the gross output and VAD. Since the input-output co-efficient is by definition a constant hence the latter ratios can be ignored without altering the results in this particular consideration. (For the basic assumptions of the input-output system, see H.B. Chenery and P.G. Clark, Interindustry Economics, John Wiley, and sons, New York, PP. 33-34). It may be noted that symbolically the fraction of the value of the output of an industry (the jth industry) which is represented by the value of the inputs to it from another industry (ith industry) is conceptually assumed to be a constant, aij. Thus if Xij is the demand of each industry j for each product i and Xj the total output of the industry, Xij = aijXi.

the comparability value of the results since the rate of inflations, if any, is unlikely to be the same in six different countries. Furthermore, there is no indication from the source material about what assumptions were made regarding foreign ownership of capital and its effect on VAD. At our present stage of development, payments to foreign factors of production (capital and skilled labour) still claim a relatively large portion of VAD in certain industries.

However, the problem of foreign ownership of capital in the industries of our interest is not a serious one. For none of the four industries concerned is wholly foreign-owned; indeed, the governments of the area have acquired controlling interests in these establishments[23] and complete nationalization cannot be ruled out in the long run. Thus, to the extent that we are concerned with the long-run effects of integration, the issue of foreign ownership of capital in the short run can be largely ingnored.

Notwithstanding the statistical pitfalls associated with the data presented in Table 8.1, some of its features are remarkable. The VAD coefficients generally are much the same in all six countries. This can be explained partly by the similarity of techniques of operation on the one hand and partly by common structural characteristics of the economies on the other. There is also the fact that a sizeable proportion of the raw materials used in manufacturing in Central-West Africa is imported. The high percentage share of VAD in relation to the gross output of petroleum products merely demonstrates the unique nature and capital intensity of oil refineries. It also suggests high productivity of the factors employed, some of which are imported, for oil refining usually requires heavy capital investment and

23. See E.I.U., et al, Op.cit, Vol, 1.

specially trained personnel. As noted earlier, the repatriation of income paid to foreign factors of production will, in the short-run, affect the impact of VAD on the domestic economy to the extent of foreign participation in the industry. But, in the long run, which is of greater concern to us, this problem will progressively disappear as the drive towards complete nationalization gathers force.

The results presented in Table 8.1 basically aim at presenting a background comparative data on the relationships between the pre-union figures and estimated post-union values of VAD and gross output. The latter will be shown in Table 8.2. And this is the main link between the two Tables.

(ii) THE INTEGRATION-INDUCED VALUE-ADDED (ΔI)

Now, we want to guage the VAD under a free trade (i.e. post-union) arrangement over time. But in doing this care should be exercised to ensure that the chosen future period is reasonable. Economic measures and arrangements require sometime to show their effects but at the same time predictions over long periods are often too speculative for policy and application purposes. Thus, 1980 is considered a reasonable terminal period, with a mid-point estimate for 1975.

Before we go further, it is important to specify at this stage the assumptions which underlie our projections of integration—induced VAD and output which are presented in Table 8.2. They can be stated as follows:

(i) A uniform unit cost of production of each product in each country is adopted, irrespective of the number of firms in a given industry, and their locations. This assumption however will be modified in our later discussion of the operational pricing policy of the region.

(ii) The reference price for computing the VAD, which was applied, is the ex-factory cost of production.

Added to the above are the already stated assumptions of intra-union tariff disarmament in the products of the industries concerned and of the virtual replacement of imports by local products through surplus capacity utilization and/or expansion; hence intra-zonal production from the regional standpoint must satisfy aggregate demand. Bearing in mind these assumptions, estimates of the total value of consumption together with the integration-induced VAD obtainable in 1975 and 1980 for each country have been made.[24] Table 8.2 presents the data.

The Table has three sets of figures under each country and with respect to each product. The first column shows the gross value-added (i.e. gross production less industrial costs). It is obtained by multiplying the total volume of estimated consumption (see Tables: 7.11, 7.12, 7.14 & 7.17) in each case by the relevant reference prices,[25] given our assumption of total import replacement.

In the second column we have the so-called integration-induced VAD which is the most important consideration here from our viewpoint. It is that portion of VAD "assumed"[26] to be directly attributable to integration - the by-product of integration itself. In other words, the integration-induced

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24. It may be noted that the estimates which follow utilised the demand projections for the individual products discussed in the previous chapter. Whereas demand elasticity for the products in question upon which the projections were based has been discussed, further discussion of it here is considered repetitive and unnecessary.

25 The unit reference price, which includes the cost of production and normal profit, is $0.88 for footwear, $41.43 for fuel in Ghana but $34.43 in Ivory Coast, $27.0 for Cement in Ghana and $26.5 in Ivory Coast whilst it is $64.0 in Niger, for fertiliser of course it is $50.0 for simple but $82.0 for compound fertiliser (Chapter 7 (2)).

26. We use the term "assumed" because we have ignored some other non-economic factors, like technical and organisational improvements which, as argued in chapter three, can also contribute to value-added.

TABLE 8.2

INTEGRATION-INDUCED VAD OF THE SELECTED INDUSTRIES (U. S. $mn.)

ISIS CODE	SUBSECTOR	GHANA (1) OUT	GHANA (2) INVAD	GHANA (3) 2 as % of 1	IVORY COAST (1) OUT	IVORY COAST (2) INVAD	IVORY COAST (3) 2 as % of 1	NIGER (1) OUT	NIGER (2) INVAD	NIGER (3) 2 as % of 1	UPPER VOLTA (1) OUT	UPPER VOLTA (2) INVAD	UPPER VOLTA (3) 2 as % of 1	DAHOMEY (1) OUT	DAHOMEY (2) INVAD	DAHOMEY (3) 2 as % of 1	TOGO (1) OUT	TOGO (2) INVAD	TOGO (3) 2 as % of 1	REGION (1) OUT	REGION (2) INVAD	REGION (3) 2 as % of 1
		1 9 7 5																				
291	Manufacture of footwear	7.02	2.7	38	10.40	2.5	24	2.08	1.2	58	3.12	1.4	45	0.61	0.23	38	0.59	0.48	81	23.82	8.51	36
311	Manufacture of Fertiliser	6.59	1.1	17	6.09	1.0	16	0.73	0.10	14	0.37	0.06	16	0.44	0.07	15	0.33	0.05	15	14.55	2.38	16
321	Manufacture of Petroleum Products	44.26	7.2	16	23.87	3.9	16	2.85	0.50	18	2.60	0.40	15	4.28	0.70	16	4.01	0.65	16	81.87	13.35	16
334	Manufacture of Cement	27.00	4.4	16	16.43	2.7	16	1.86	0.30	16	2.64	0.42	15	3.34	0.53	16	3.41	0.56	16	154.67	8.91	16
	Total	84.87	15.4	18	56.79	10.1	18	7.52	2.10	28	8.73	2.28	26	8.67	1.53	18	8.34	1.74	21	174.91	33.15	19
						1		9		8		0										
291	Manufacture of footwear	9.36	3.5	37	13.00	3.1	24	2.73	1.5	55	4.68	2.1	45	0.91	0.35	35	0.78	0.65	83	31.46	11.2	36
311	Manufacture of Fertiliser	10.62	1.7	16	9.81	1.6	16	2.23	0.36	16	1.12	0.18	16	1.34	0.22	16	1.00	0.16	16	26.12	4.22	16
321	Manufacture of Petroleum Products	59.20	9.6	16	34.40	5.6	16	4.44	0.72	16	4.46	0.72	16	5.35	0.90	17	4.97	0.81	16	112.82	18.35	16
334	Manufacture of Cement	32.60	5.8	18	21.20	3.8	18	3.10	0.60	19	3.48	0.86	18	4.88	0.90	18	4.88	0.90	18	69.94	12.63	18
	Total	111.78	20.6	18	78.41	14.1	18	12.50	3.18	25	13.74	3.67	27	12.28	2.33	19	11.63	2.52	22	240.34	46.4	19

Note: OUT = OUTPUT; INVAD = INTEGRATION-INDUCED VALUE-ADDED. The estimation of INVAD applied the following assessed CXTs: footwear, 38%; Fertiliser, 0%; Petroleum, 51%; and cement, 42%.

Source: Calculation based on the data in section 2 of chapter seven. Figures are subject to errors of rounding.

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VAD - assuming that the possible contributions of other independent factors to VAD are negligible - is the additional output brought about by the expansion of existing industries to take advantage of enlarged markets, which, in turn, has been the direct result of market integration. Without integration this additional production would not have been undertaken and ipso facto no additional increase in VAD generated by integration. But with integration opportunities for the exploitation of the economies of scale were created. Indeed, as argued in chapter three, the enlargement of the size of the market for firms producing below optimum capacity prior to integration normally sets the economies of scale working.

It could of course be argued that the total VAD shown in Table 8.2 is not dependent on integration alone since the assumption of complete import replacement implies an increase in own domestic consumption through the diversion of that pre-union portion of home consumption which was imported from third countries to domestic-based sources of supply. That is: part of our estimate of VAD could be obtained simply by pursuing an independent policy of import substitution without integration.

Undoubtedly, it is evidently probable (though not very certain) that an independent policy of import substitution would yield net VAD for any country or group of countries. But what is not clear is whether this would surely be the case here. Firstly, one is bound to question the wisdom of making any sharp distinction between integration and integration-led assumption effects on VAD. Obviously, since integration goes with the assumption of import replacement, which is necessary to ensure the full effects of integration,

any attempt to distinquish between the effects of integration and import-replacement assumption on VAD seems arbitary and unnecessary. Secondly, and more importantly, even if this distinction has to be made, the relative contributions of the two effects to post-union VAD cannot be determined a priori. Much depends on the relationship between pre-union domestic production and aggregate domestic consumption. If prior to union some domestic producers were virtually self-sufficient in the production of the commodities concerned those producers would (assuming no dramatic increase in post-union consumption) tend to export virtually all the post-union additional production (less industrial costs); hence for such producers the estimate of this production would fairly represent the integration-induced VAD. The GECS situation is akin to this.

Ghana and Ivory Coast, who between them would produce and export all but a negligible proportion of the additional production, are basically self-sufficient as regards those products. The proportion of additional demand to be met from other intra-union sources is really very tiny and can be ignored (chapter 7 (2)). Thus it seems reasonable to regard the estimates presented in Table 8.2 as an approximate value of the integration-induced VAD.

The "integration-created" VAD is derived in each case by substracting the estimated pre-union net production of each product[27] from the projected post-union consumption level (Tables: 7.11, 7.12, 7.14 and 7.17)[28] which would be met by local producers at a given point in time. The result is then multiplied in each case by the relevant reference price (see footnote 25).

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27. The estimates for 1969 from ECA and CBS sources were utilised for this purpose (see Table 8.1 sources).

28. The method and problems associated with the demand projections in these Tables were fully discusses in the previous chapter.

The reference price varies from country to country. But, as stated earlier, a uniform reference (ex-factory) price has been applied in each country. Where two plants or more existed in one country, the average ex-factory price was adopted as the reference price for purposes of our calculation. The assumption of uniform reference price will however be relaxed when we come to discuss the regional pricing policy.

The third column furnishes data on integration-induced VAD expressed as a percentage of total output.

Table 8.2 thus attempts to show the national and regional values of demand against the product of each country. For individual countries the figures represent consumption, and they roughly add up to total regional production, given our assumption that regional consumption fairly approximates to regional production. Against each non-producer of certain products the output-VAD figures are underlined to indicate that the countries concerned import all their supplies from other intra-union sources. Thus, while the total regional consumption add up to total regional production in these cases, the consumption figures of producers - as the Table shows - do not.

For the region as a whole, the integration VAD, which, pending the availability of more refined and reliable data, must be treated as tentative will amount to $33.15 million by the end of 1975 and $46.4 million in 1980. In percentage terms, this would be 19% of the value of total output of the industries considered or about 4.6% of the entire manufacturing sector in both cases. Evidently, figures for individual countries in Table 8.2 vary very widely - though less so in percentage terms - due to differences in the productive capacity of the various economies. As would be expected, the output

and VAD values in Ghana and Ivory Coast are relatively substantial, but the corresponding figures for some of the lesser states (Niger and Togo) are quite negligible.

In order to appreciate the usefulness as well as the shortcomings of the data shown in the above Table, some of its relevant assumptions need to be re-emphasized. It is assumed that the integration-induced VAD is the direct consequence of free trade arrangement. Without integration there would be no expansion of production because of limited domestic market, higher unit cost due to under-utilisation of capacity and the availability of relatively cheaper imports from outside the region. But with the dismantling of tariff barriers or tariff reductions, a virtual complete switch in imports away from extra-area sources toward intra-zonal suppliers, it is assumed, would ceteris paribus take place. In effect, the expansion of industrial production in the subsectors under discussion is attributed primarily to the stimuli imparted by integration. Obviously, this is a key but contentious assumption. It can be pointed out that such factors - like variations in input mix, changes in domestic and fiscal policies and socio-economic upheavals - which may have very little or nothing to do with integration can affect the value of VAD. Conceivably, it can also be argued, as noted in chapter two, that the consumption potential in each country has not been fully exploited given the tenuous nature of their distributive network. Hence transport improvements alone could increase the volume of consumptions of each product within its national frontier. But the more important criticism of Table 8.2 emanates from the conventional criticisms of the input-output system. These include, among others, the assumptions that factor proportions are constant and that production is governed by constant returns (implying also constant prices) to scale.

These heroic assumptions are seldom valid in practice. Nevertheless, they are sometimes necessary for computational purposes and the data yielded in this particular instance provide useful indicative material for our analysis.

To explore the welfare implications of the switch in trade away from third country sources toward intra-regional markets, we need to assess the trade diversion effect.

(iii) MEASUREMENT OF TRADE DIVERSION EFFECT (ΔY)

One of the important hallmarks of Jacob Viner's pioneering work on Customs Union theory - discussed in chapter 3 - remains the contrast he establishes between the welfare-raising effects of trade creation with the welfare-reducing effects of trade diversion. The latter occurs where and when the tariff discrimination in favour of partner countries leads to a shift in the source of supply away from cheaper third countries towards the parties. By implication, this necessarily reduces the welfare of the importing countries because the fact that the imports were bought from third countries in the absence of discrimination suggestes that their cost of production is lower there.

Once more, this raises the question of protection which permits domestic industries to operate with a value added higher than that on the world market and/or under free trade, thereby providing incentives for the movement of domestic resources (land, labour and capital) into protected industries. Consider this, the average c.i.f. price of simple footwear in the region under study is $1.00 and the proxy value added is 45% of the c.i.f. price (see Table 8.1). This means that the cost of its material inputs on the world market is 55 cents, corresponding to a value added in shoe manufacturing of 45 cents. A 26% tariff on footwear will raise the domestic price of the product to 126 cents (Table 7.16); while, say, a 10% duty on the material inputs increases

material costs to the domestic producer to 60.5 cents. Protection will thus enable firms to operate with a value added of 65.5 cents, which is the difference between the domestic price of footwear of 126 cents and the material cost of 60.5 cents. And when we compare the world value added of 45 cents with the domestic VAD of 65.5 cents - the margin of 20.5 cents which is the effective rate of protection of the domestic footwear manufacture - the percentage excess of domestic over world market VAD will be 45%[29].

It is easily observed from the above example that the value of the effective rate of protection (ERP) represents an extra cost which the intra-union individual consumer is called upon to pay and from the viewpoint of the society this entails a considerable loss of welfare. But central planners wanting to maximise other objectives could regard this as a necessary sacrifice. Consumers may be called upon to sacrifice some portion of their immediate welfare in the hope of greater future welfare.

Be that as it may, the effects of protection on economic growth needs qualification. High levels of protection may have positive or negative effects on economic growth depending on the circumstances of any particular situation. Protection may lead to increases in profits but unless such profits are in

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29. Although we defined the effective rate of protection (ERP) in Chapter Seven, it is necessary that the distiction between the ERP and the nominal rate of protection (NRP) be kept sharply in focus here. Whilst the ERP is denoted as the percentage excess of domestic VAD, obtainable by reason of the imposition of tariffs and other protective measures on the product and its inputs, over foreign or world market VAD, the NRP of a particular commodity is the percentage excess of the domestic price over the world market price, resulting from the application of protective measures. Thus, the major difference between the two is this: the NRP pertains to the product and affects decisions taken by consumers but the NRP indicates the joint effects of tariffs on the product itself and on its inputs, and it influences the producer's choice (see Bela Balassa and Associates, The Structure of Protection in Developing Countries, The Johns Hopkins Press, Baltimore, 1971, PP. 3-4).

turn reinvested, the static cost of protection due to inefficiencies in resource allocation reduces the amount available for reinvestment.[30] Ipso facto, this affects growth and consumer welfare. Furthermore, although import substitution in nondurable consumer goods may ensure rapid growth until imports have been replaced, progress thereafter becomes increasingly difficult as the country enters the next stage of import substitution. As noted earlier, two of the countries under study - Ghana and Ivory Coast - are already in this situation. The limitations of domestic markets do not permit the exploitation of large-scale economies and, in the absence of effective competition, there is little incentive for improvements in product quality and in technical methods. Lastly, discrimination against exports could display an unfavourable effect on economic growth since the slowdown in exports, by way of backlash, restrains the increase of the country's import capacity.

However, these limitations should be carefully weighed against the salutary aspects of protection. Aside from ploughing back profits, the employment and technological spin-off effects of protection are crucial for developing economies.

Whatever the net effect of protection, trade diversion is one of its traditionally acknowledged important by-products. As demonstrated in chapter 3, trade diversion is also assumed to represent in a static sense an "impact" welfare loss. The weaknesses of this a priori assumption have already been fully exposed (chapter 3). For instance, trade diversion is a benefit to the exporting country not a cost. Meanwhile, we retain - for computational purposes - the assumption that the switch in the source of supply away from cheaper third countries towards intra-union sources reduces welfare. Our task now is to assess the degree of welfare loss stemming from trade diversion involving the four commodities under consideration.

30. Ibid. PP. 86-88

We shall do this in two stages: first, we shall assume a hypothetical autarkic situation where no trade existed between the GECS states and on that assumption calculate the national income loss effect of trade diversion (Table 8.3). In the second stage we shall relax the unrealistic assumption of autarky to enable us determine through the use of intra-union trade matrix (see Table 8.4) the actual amount likely to reflect the national income loss involved (Table 8.5).

One method of assessment of the income loss occasioned by trade diversion has been used by Williamson[31]. According to Williamson the diversion effect can be measured by the tariff differential whose emergence provokes the switch in trade. This implies the difference between the "protective" common external tariff (CXT) and the free tariff rate. He contends that the average tariff differential to provoke a shift would be half the CXT. Thus as this approach suggests we can arrive at the estimate of $\triangle Y$ by simply multiplying half the CXT by the volume of trade so diverted.

However, the Williamson formula is not new. Indeed, it is a commonly accepted formula and Johnson had at a much earlier date applied the same technique under different assumptions in estimating the United Kingdom gains from freer trade with Europe. Professor Johnson argues that the "maximum-loss estimate" arising from Free Trade with Europe would be (approximately) the value of the difference in exports to Europe due to the Free Trade Area, multiplied by half the proportion of the relevant tariff rate in the final price (since the price reductions required would have to offset the full weight of the tariff only in extreme cases)[32].

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31. John Williamson, On Estimating the Income Effects of British Entry to the EEC, University of Survey, Guildford, No. 5, June 1971, P. 5.

32. See H.G. Johnson, "The Gains from Freer Trade with Europe: An Estimate"

TABLE 8.3

HYPOTHETICAL ESTIMATE OF TRADE/NATIONAL INCOME LOSS UNDER AUTARKY IN 1975 & 1980 (US. $mn.)

ISIS CODE	INDUSTRY		GHANA		IVORY COAST		NIGER		UPPER VOLTA		DAHOMEY		TOGO		REGION	
			INVAD	NIL	INVAD	NIL	INVAD	NIL	INVAD	NIL	INVAD	NIL	INVAD	NIL	INVAD	NIL
291	FOOTWEAR	1975	2.7	1.35	2.5	1.25	1.2	0.6	1.4	0.7	0.23	0.11	0.48	0.24	0.51	4.25
		1980	3.5	1.75	3.1	1.55	1.5	0.75	2.1	1.05	0.35	0.18	0.65	0.33	11.2	5.61
311	FERTILISER	1975	1.1	1.55	1.0	0.5	0.1	0.05	0.06	0.03	0.07	0.03	0.05	0.02	2.38	1.18
		1980	1.7	0.85	1.6	0.8	0.36	0.18	0.18	0.09	0.22	0.11	0.16	0.08	4.22	2.11
321	PETROLEUM	1975	7.2	3.6	3.9	1.95	0.5	0.25	0.4	0.2	0.7	0.35	0.65	0.32	13.35	6.67
		1980	9.6	4.8	5.6	2.8	0.72	0.36	0.72	0.36	0.90	0.45	0.81	0.41	18.35	9.18
334	CEMENT	1975	4.4	2.2	2.7	1.35	0.3	0.15	0.42	0.21	0.53	0.27	0.56	0.28	8.91	4.46
		1980	5.8	2.9	3.8	1.9	0.6	0.30	0.67	0.33	0.86	0.43	0.90	0.45	12.63	6.31
TOTAL		1975	15.4	7.7	10.1	5.05	2.1	1.05	2.28	1.14	1.53	0.76	1.74	0.87	33.15	16.56
		1980	20.6	10.3	14.1	7.05	3.18	1.59	3.67	1.83	2.33	1.17	2.52	1.26	46.4	23.20

Note: INVAD = Integration-induced VAD under protection; NIL = National Income Loss due to trade diversion. Figures are subject to errors of rounding.

Source: See Table 8.2.

This method is both simple and plausible, especially in view of the paucity of data in the area under study to permit the application of more sophisticated techniques. Even the approach applied by Balassa, as shown above, requires disaggregated domestic tariff charges on imports for individual products. But this type of data is not immediately available in the region.

Moreover, since we have already obtained the value of the extra regional trade under protection due to union (Table 8.2), an estimate of the national income loss brought about by trade diversion would now be relatively easier.

Thus, we apply the Johnsonian formula here; and to obtain an estimate of the national income loss occasioned by trade diversion we reduce the total value of the integration-induced trade within GECS under full protection by half.[33] The results of this computation, which at this stage assumes the absence of intra-zonal trade (i.e. each country produces what it consumes), are presented in Table 8.3.

It is pertinent here to underline the assumptions relating to the tariff rates on which the computations shown in Table 8.3 were based. The following national free trade tariff rates were applied: footwear, 19%; fertiliser, 0%; petroleum, 27%; and cement, 21%. These free trade rates have been arrived at by reducing the assessed CETs by half; the actual CXTs were 38% for footwear, 0% for fertiliser, 54% for petroleum, and 42% for cement.

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in P. Robson (ed), International Economic Integration Op.cit., PP.304-347. The Andics and Dosser applied the same formula:

$$W = \tfrac{1}{2}\left(\frac{t}{1} + t\right)\ (M_i - M_F)$$

where W = trade diversion welfare loss;

$\frac{t}{1} + t$ = average height of tariff;

M_i = Present import; M_F = Free trade import (Andics and Dosser, Op.cit, P. 151).

The introduction of the free trade rates may be helped by a number of factors. First, preference systems are already in existence within the Entente states (chapter 6). The tariff rates which the Entente countries apply to themselves in their intra-union trade are roughly half of those levied on goods originating from outside the Entente. Thus the introduction of the free trade rates will not altogether appear strange, and rather than embark on new arrangements the existing administrative machinery can, mutatis mutandis, be utilised. Second, the range of products involved in the liberalization exercise are such that the revenue effects would not be very severe, although safeguards, which will be discussed in the next chapter, can still be provided, especially to the weaker partners. Third, since the tariff rate is calculated on product-by-product basis, it has been possible to take into account the degree of protection needed by a given industry in its early years of operation. Where necessary, further assistance under an agreed union package deal could be offered, for instance, by way of guaranteeing certain industries some specified level of purchases over a specified period of time.

With the exception of fertiliser, the height of those tariff rates in view of their protective as well as revenue purposes[34] is understandable. Generally, fertiliser products are not treated as dutiable goods in the region

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33. This in effect is essentially the same thing as multiplying the value of the difference in trade between protection and freer trade by half the operational CXT level.

34. For a discussion on this, see chapter 6.

as a part of the overall programme of agricultural development. They are indeed heavily subsidised in some countries. Subsidy rates in Ghana and Niger of 60% and 35% respectively are known to operate[35], but it would appear that the precise figures in these cases need further confirmation before they can be applied in quantitative estimates hence for purposes of computation zero rates have been considered safer.

Granting the accuracy of the above figures for purposes of discussion, a word may be said about the subsidy rate of 60% for fertiliser in Ghana. On the face of it this may sound as a staggering rate of subsidy granted to a bunch of inefficient local farmers who cannot survive without the support of the Central government. But this does not seem to be the case.

The simple facts about the matter are straightforward. Cocoa is the principal agricultural crop of Ghana. It has a single buyer who also arbitrarily fixes its domestic price - usually far below the world price and retains the difference as profits. This single buyer is the Ghana Cocoa Marketing Board. It is the responsibility of the Board to subsidise fertiliser purchases by individual farmers out of its funds on behalf of the state.

Although in recent years the FAO has supported various experiments in the use of fertilisers on subsistence crops such as maize, yam, sorghum, tobacco and sugar cane and these efforts, it is hoped, will progressively lead to rapid expansion in the consumption of fertilisers in Ghana,[36] meanwhile

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35. See E.I.U. and SEDES, Op.cit., Vol.II, PP. 402-404. Other sources have omitted these figures and it is not very clear from the above source whether these figures have just been proposed or have been operational and if so, when? Zero rates have therefore been assumed.

36. Ibid.

cocoa farmers remain the principal consumers. Thus the subsidy rate, though high, appears to be no more than an offsetting policy - returning through the backdoor a portion of that part of peasant farmers' income which had been directly expropriated through state monopoly.[37]

We now return to the rationale of Table 8.3. The Table assumes, as already noted, that the national consumption level equals national production; hence no adjustment is made in the computation of the national income loss (NIL) effect of integration with respect to that portion of a given country's consumption imported from intra-union sources. Since trade diversion is a benefit rather than a cost from the standpoint of the exporting country, failure to adjust the NIL for exports in the case of exporting countries would really exaggerate the NIL. This is indeed the angle from which the data presented in Table 8.3 must be viewed.

As it stands it presents data on NIL under autarky, and serves two main purposes. First, it shows what the NIL would have been if every country were to replace its imports from its own internal sources. And these figures could be compared with what really obtains in our situation where some of the countries obtain part of their total consumption from their union partners (see Table 8.5). Second and no less important, the Table forms a convenient first stage in our assessment of the trade diversion effect of integration. To this extent the Table does not furnish any conclusive evidence on the matter and its detailed discussion must necessarily be deferred until the second stage of the calculation is completed.

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37. For the controversy, which is not our concern here, over the fiscal role of Marketing Boards in West Africa, see H. Whetham and Associate (eds.) Readings in the Applied Economics of Africa, Vol.2, Cambridge University Press, 1967, PP. 71-93. Also see C.K. Eicher and C. Liedholm (eds), Growth and Development of the Nigerian Economy, Michigan State University Press, 1970.

TABLE 8.4

ESTIMATED CHANGES IN INTRA-CECS TRADE PATTERN[1], BROUGHT ABOUT BY INTEGRATION: 1975 & 1980 (IN $mns)

EXPORTING COUNTRIES

Importing Countries		GHANA		IVORY COAST		DAHOMEY		NIGER		TOGO		UPPER VOLTA		ALL MEMBERS	
		1975	1980	1975	1980	1975	1980	1975	1980	1975	1980	1975	1980	1975	1980
Ghana	1975	-		-		-		-		-		-		-	
	1980		-		-		-		-		-		-		-
Ivory Coast	1975	-		-		-		-		-		-		-	
	1980		-		-		-		-		-		-		-
Dahomey	1975	0.50		0.37		-		0.05		-		0.01		0.93	
	1980		0.85		0.38		-		0.02		-		-		1.25
Niger	1975	0.35		0.20		-		-		-		-		0.55	
	1980		0.46		0.32		-		-		-		-		0.78
Togo	1975	1.03		0.52		0.06		0.02		-		0.06		1.69	
	1980		1.58		0.73		-		0.05		-		-		2.36
Upper Volta	1975	0.49		0.23		0.05		0.05		-		-		0.82	
	1980		0.79		0.60		-		-		-		-		1.39
All Members	1975	2.37		1.32		0.11		0.12		-		0.07		3.99	
	1980		3.68		2.03		-		0.07		-		-		5.78

1. Only the four products (cement, fertiliser, shoes and petroleum) of our interest are included in this calculation.

Source: Calculations based on the trend of intra-regional imports discussed in section 2 of chapter seven as well as on the data presented in Table 8.2

The second stage of the computation involves adjusting the data for exporting member countries to take account of their experts to other intra-union partners. But to do this we must first of all construct an intra-zonal trade matrix, which would include the four products concerned, in order to know who buys what and from whom. Table 8.4 shows the results of this exercise.

The Table (8.4) is constructed from the estimates of intra-regional imports of the commodities in question discussed in section 2 chapter 7 and also from the data presented in Table 8.2. The simple projection, which is not further explained here[38], is based on a number of assumptions, some of which have been stated earlier. They include the following:

(i) that the uniform unit cost of production of each product is applied in each country;

(ii) that the ex-factory cost of production is the reference price; and

(iii) that a uniform delivered/transfer price has been adopted in each production/exporting point (i.e. a multiple basing-point system) since there are more than one plant in each industry. The main advantage of the uniform delivered price is that the gains or losses arising out of trade diversion is distributed in proportion to the respective countries consumption of the product (s).

The evidence presented in Table 8.4 has been obtained by multiplying the estimated volume of imports in each importer member country by the relevant delivered price. What clearly emerges from the Table is that Ghana and Ivory Coast are the major producers and exporters of the commodities under

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38. The method of demand projection has been discussed in the previous chapter. We are merely using the figures here.

review; and neither of them imports any. Of the 1975 total regional imports of about $4 million, Ghana supplied $2.37 (i.e. 59%) whilst Ivory Coast furnished another 33%. That is both supplied 92% of the imports of the imports of the area in 1975; the figure of 99% (64% and 35% respectively) for 1980 is even higher.

For all practical purposes, the other four countries (Dahomey, Niger, Togo and Upper Volta) buy from Ghana and Ivory Coast. Although, with the notable exception of Togo, every member has something to offer, the contributions of Dahomey, Niger and Upper Volta are very negligible indeed.

The import figures of individual countries, though in themselves an unsatisfactory indicator, reflect the relative strength of their economies. Togo is the largest single intra-group importer, followed by Upper Volta and Dahomey in that order. Niger has the lowest import figures ($0.55 million in 1975 and $0.78 million in 1980). For the region as a whole, of course, the value of intra-zonal trade is exceedingly small. The estimated values of this are $3.99 million in 1975 and $5.78 million in 1980. These could be described as sums hardly worth bothering about. However, it is conceivable that a more broadly based integration scheme could develop from these small beginnings.

Continuing with the second stage of our assessment of the NIL, we adjusted Table 8.3 for the value of exports of the intra-union producers. For Ghana and Ivory Coast, of course, the problem of trade diversion does not arise in this particular case because both export but do not import any of the products from other intra-union sources.

TABLE 8.5

ESTIMATE OF TRADE DIVERSION/NATIONAL INCOME LOSS UNDER FREE TRADE, 1975 and 1980 (US $Mns)

ISIC CODE	INDUSTRY		GHANA	IVORY COAST	NIGER	UPPER VOLTA	DAHOMEY	TOGO	ALL MEMBERS
291	FOOTWEAR	1975	-	-	0.53	0.63	0.11	0.24	1.51
		1980	-	-	0.68	1.05	0.18	0.33	2.24
311	FERTILISER	1975	-	-	0.05	0.03	0.03	0.02	0.13
		1980	-	-	0.18	0.09	0.11	0.08	0.46
321	PETROLEUM	1975	-	-	0.25	0.20	0.35	0.32	1.12
		1980	-	-	0.36	0.36	0.45	0.41	1.58
334	CEMENT	1975	-	-	0.10	0.21	0.16	0.28	0.75
		1980	-	-	0.30	0.33	0.43	0.45	1.58
	TOTAL	1975	-	-	0.93	1.07	0.65	0.87	3.52
		1980	-	-	1.52	1.83	1.18	1.26	5.79

Source: Computed from Tables 8.3 and 8.4

This exercise was made possible by the use of a disaggregated data compiled on a product-by-product basis. Because of space and convenience, only a country-by-country summary of these data has been presented in Table 8.4.

The results yielded in the exercise are shown in Table 8.5 as our estimate of the NIL effect of integration. Put another way, the Table presents evidence of the degree of NIL which each relevant union partner will suffer. It reveals that in the year 1975 the NIL originating from integration-led protection[39] of our four industries under investigation will amount to $3.52 million whilst the corresponding figure for 1980 will be of the order of $5.79 million. For the region these sums of money cannot be regarded as crippling but in a relative sense they represent some loss of welfare. It is even more so when viewed from the standpoint of a wider range of products.

For individual countries the range of welfare loss epitomises the differences in import consumption capacity. While Ghana and Ivory Coast do not suffer any NIL (because each of them, as noted earlier, is self-sufficient in the production of the commodities concerned) the NIL for the rest in 1975 ranges from $0.65 million in Dahomey to $1.07 million. The projected figures for 1980 reveal similar disparities. Although these figures in view of our seemingly weak statistical base must be treated as tentative, they nevertheless represent, at least, an order of magnitude upon which policy decision regarding the NIL effect of integration could be based.

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39. Balassa and Associates apply a different method in assessing the "cost" of protection in a selected number of LDCs (see Balassa and Associates, The Structure of Protection in Developing countries, Op.cit., PP.80-82). A summation of all the five elements employed yielded the net cost of protection. Although this method indicates the cost attributable to each of the five elements, and while this may serve useful comparative purposes, the technique utilises detailed input-output statistics for individual industries. Because we do not possess these data, we have adopted a different approach. It is not surprising that Balassa and Associates did not include any African country in their investigation.

But, as we shall soon see the static trade diversion effects or NIL arising from "inefficient specialization" may be counterbalanced by the dynamic effects of protection. Foreign exchange savings where the net value is positive are certainly one of these and the succeeding subsection deals with this aspect.

(iv) ASSESSING FOREIGN EXCHANGE SAVINGS (Δ^{d}_{F})

The concern of this subsection is twofold. The first is to isolate the foreign exchange question and treat it as an independent item from the VAD estimate only for purposes of comparison and emphasis, in view of the critical role of foreign exchange in the capital formation of LDCs. But since our estimate of VAD has taken care of the foreign exchange savings the figures in Table 8.7 will not enter our final calculations. They serve to demonstrate under given assumptions the foreign exchange savings effect of integration. The second but more important issue here is to assess the difference between the shadow price value and the world price value of domestically produced imports.

Prior to integration each country maintained its own tariff rates and conceivably, depending on individual tariff levels, imported some quantity of the products under examination. But integration is assumed to unify the protective structure of the Union tariff levels which consequently eliminated supplies from third country sources and reserved the entire market for intra-union producers.

It is necessary to note that a priori import substituting industries are expected to save some foreign exchange without the benefit of economic integration and this is one of the important arguments on which the case for import substitution in individual LDCs rests.

TABLE 8 . 6

THE DIRECT INPUT CO-EFFICIENTS OF THE ECONOMY OF GHANA, 1960

	1	2	3	4	5	6	7	8	9	10
	Agriculture	Forestry	Cocoa	Mining	Manufacturing	Electricity	Construction	Fuel	Public utilities	Services
1. Agriculture	-	-	-	-	0.011	-	-	-	-	0.020
2. Forestry	-	-	-	0.004	0.212	-	-	-	-	-
3. Cocoa	-	-	-	-	0.079	-	-	-	-	-
4. Mining	-	-	-	-	-	-	0.009	-	-	-
5. Manufacturing	-	0.005	0.015	0.015	-	-	0.062	-	0.018	0.006
6. Electricity	-	-	-	0.015	0.008	-	0.001	-	0.009	0.002
7. Construction	-	-	-	-	-	-	-	-	-	-
8. Fuel	-	0.014	-	0.040	0.019	0.375	0.029	-	0.081	0.030
9. Public Utilities	-	-	-	0.004	0.011	-	0.003	0.021	-	0.005
10. Services	-	0.005	-	0.018	0.076	-	0.055	0.007	0.108	-
IMPORTS	0.003	0.014	-	0.073	0.227	0.167	0.184	0.446	0.081	0.071
INDIRECT TAXATION	-	- -	-	0.007	0.045	-	0.011	0.267	-	0.002
SUBSIDIES	-	-	0.009	-	-	-	-	-	-	-
GROSS VALUE ADDED	0.997	0.962	0.994	0.823	0.311	0.458	0.646	0.240	0.703	0.864
TOTAL	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000

SOURCE: ECONOMY OF GHANA, VOL. 1 , P. 85.

TABLE 8.7

FOREIGN EXCHANGE SAVINGS RESULTING FROM INTEGRATION, 1975 & 1980

ISIS CODE	INDUSTRY		GHANA		IVORY COAST		NIGER		UPPER VOLTA		DAHOMEY		TOGO		REGION	
			I	F	I	F	I	F	I	F	I	F	I	F	I	F
191	FOOTWEAR	1975	2.70	2.03	2.50	1.87	1.20	0.90	1.40	1.05	0.23	0.17	0.48	0.36	8.51	6.38
		1980	3.50	2.62	3.10	2.32	1.50	1.12	2.10	1.57	0.35	0.26	0.65	0.49	11.20	8.40
311	FERTILISER	1975	1.10	0.82	1.00	0.75	0.10	0.07	0.06	0.04	0.07	0.05	0.05	0.04	2.38	1.78
		1980	1.70	1.28	1.60	1.20	0.36	0.27	0.18	0.13	0.22	0.16	0.16	0.12	4.22	3.16
321	PETROLEUM	1975	7.20	5.40	3.90	2.92	0.50	0.37	0.40	0.30	0.70	0.52	0.65	0.49	13.35	10.01
		1980	9.60	7.20	5.60	4.20	0.72	0.54	0.72	0.54	0.90	0.67	0.81	0.61	18.35	13.76
334	CEMENT	1975	4.40	3.30	2.70	2.03	0.30	0.22	0.42	0.31	0.53	0.40	0.56	0.42	8.91	6.68
		1980	5.80	4.35	3.80	2.85	0.60	0.45	0.67	0.50	0.86	0.64	0.90	0.68	12.63	9.47
	TOTAL	1975	15.4	11.55	10.10	7.57	2.10	1.57	2.28	1.71	1.53	1.15	1.74	1.31	33.15	24.86
		1980	20.6	15.45	14.10	10.58	3.18	2.38	3.67	2.75	2.33	1.75	2.52	1.90	46.4	34.80

Note: I = Value of domestic sales of final use in time t valued at current world prices;
F = Foreign Exchange Savings in time t.

Source: Computation based on Table 8.2

Thus we are concerned not with the aggregate foreign exchange saved by the establishment of the industries being studied but with the difference between the total and that portion which would have been saved anyway without integration. Put precisely, we are interested only in the savings of foreign exchange made possible by integration.

For lack of data on current input-output co-efficients pertaining to the individual countries, and industries under discussion, we adopt a datum derived from the inter-sectoral accounts of the economy of Ghana as a rough estimate of the input co-efficient in the four industries (see Table 8.6). The 1960 inter-sectoral accounts of the economy of Ghana indicate that the "production matrix" co-efficient for imported inputs in the manufacturing sector is of the order of 0.25[40]. Table 8.6, which is provided mainly for general interest, illustrates the inter-sectoral relationships in greater detail.

Thus to guage the amount of foreign exchange saved as a result of integration-induced expansion, we have obtained the results presented in Table 8.7 by solving the following equation:

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40. The actual co-efficient (see Table 8.6) is 0.227 but it is thought that given the trend towards capital intensity and industrial expansion the share of imported over domestic inputs might have slightly increased since the input-output table was constructed.

$$I_t - M_t = E_t$$

where I_t = value of domestic sales of final use in time t (i.e. 1970, 1971-80) (valued at world prices);

M_t = imported inputs in time t ;

F_t = foreign exchange savings in time t.

Table 8.2 furnishes data on the value of the variable I_t at any one time and having obtained the imported input co-efficient, the calculation became more or less straightforward.

Against each product the amount of foreign exchange saved speaks for itself. Petroleum tops the list in the foreign exchange savings league, followed by cement. As Table 8.7 demonstrates, foreign exchange savings on petroleum imports will amount to $10 million and $13.8 million in 1975 and 1980 respectively. The corresponding figures for cement will be about $6.7 million and $9.5 million. Savings on the import of shoes would also be substantial - $6.4 million in 1975 and $8.4 million in 1980. For the whole region, total foreign exchange savings made will add up to $24.9 million in 1975 and $34.8 million in 1980.

Based on world prices, we have shown above the amount of foreign exchange that would be saved. These figures cannot of course form part of the benefits of integration as they have already been counted as part of the integration VAD. However, given the assumption[41] that shadow prices are in certain circumstances higher than world prices, it can be shown that world prices

41. See H. Joshi, "World Prices as shadow Prices: A critique", Bulletin of the Oxford University Institute of Economics and Statistics, 34 (1), February, 1972, PP. 53-72.

understate the domestic value of foreign exchange. The second part of this subsection tries to determine the difference between the two prices with a view to adjusting our estimate of integration—induced VAD to take account of it.

The distinction between shadow prices and world prices of course arises from criticisms of the little-Mirrless model of project appraisal. In our earlier discussion, we noted that Little and Mirrlees considered "world prices" to be the appropriate "shadow prices" for project evaluation since the former represent a country's actual trading Opportunities.[42] But the Little—Mirrlees view has been widely contested. In particular, it is argued that there are ways in which economies may diverge from the model in which world prices are the correct accounting prices. Joshi contends that "the use of world prices as shadow prices is strictly only applicable in an open economy, perfectly competitive in world markets, with fully employed domestic capacity, and it is, strictly speaking, incorrect to use world prices to value goods which have limited access to world markets.[43]

Surely, West African economies are neither perfectly competitive nor are their domestic resources fully employed due to poor internal inter-sectoral integration of these economies. Furthermore, since the products we are concerned with have highly limited access to world markets, it is unlikely that world prices would adequately reflect the value domestic consumers place on them. Thus we want to go beyond the acceptance of world prices as correct accounting prices.

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42. See Chapter 7, Footnote 21.

43. H. Joshi, Op.cit., P. 56

Of a number of recent attempts[44] to determine the shadow price of foreign exchange for project evaluation purposes one is particularly more relevant to our case. It is the study carried out by Dr. J.C. Leith in which, as at end of December, 1967, he made calculations to determine the shadow price of foreign exchange in a selected group of LDCs.[45] He notes that the shadow price of foreign exchange is the internal value of a unit of foreign exchange but it is not necessarily the equilibrium price of foreign exchange. Conceptually, this is understandable. It is often noted that given the complexity of objectives and constraints in any actual economy, it may be difficult to device the entire simultaneous problems. Hence the only shadow prices which have theoretical validity are these associated with the exact solution of the general equilibrium optimum problem.[46] Thus the shadow price of foreign exchange with which we are concerned here is at best "approximately right" and while it may co-incide with the equilibrium price of foreign exchange, we offer no theoretical guarantee that it must.

According to Leith, the shadow price of the Ghana cedi, which was the only West African currency in the list, [47] was US ₵1.20 - implying a rate of divergence of 18% over and above its world/official price of US ₵1.02 at the time. The calculation assumes that the elasticity of supply of foreign exchange is one-half the elasticity of demand for foreign exchange. We have in the absence of more reliable data used the above rate of divergence in our own

44. See footnote 21 of Chapter 7.

45. J. Clark Leith, "The shadow Price of Foreign Exchange: Conceptual Framework and Estimates for selected countries", Canadian International Development Agency (CIDA), Report, 1969.

46. See V. Joshi, "The Rationale and Relevance of the Little-Mirrlees Criterion" Bulletin of the Oxford University Institute of Economics and Statistics, Vol. 34 (1), February 1972, P. 4.

TABLE 8.6

(In U.S. $m) FOREIGN EXCHANGE SAVINGS: DIFFERENCE BETWEEN SHADOW PRICES AND WORLD PRICES

ISIS CODE	INDUSTRY	GHANA			IVORY COAST			NIGER			UPPER VOLTA			DAHOMEY			TOGO			REGION		
		SP	WP	SP-WP	SP	WP	SP-WP	SP	WP	SP-WP	SP	WP	SP-WP	SP	WP	SP-WP	SP	WP	SP-WP	SP	WP	SP-WP
1975																						
291	FOOTWEAR	3.19	2.7	0.49	2.95	2.5	0.45	1.42	1.2	0.22	1.65	1.4	0.25	0.27	0.23	0.04	0.57	0.48	0.09	10.04	8.51	1.53
311	FERTILISER	1.30	1.1	0.20	1.18	1.0	0.18	0.11	0.10	0.01	0.07	0.06	0.01	0.08	0.07	0.01	0.06	0.05	0.01	2.81	2.38	0.43
321	PETROLEUM	8.50	7.2	1.30	4.69	3.9	0.70	0.59	0.50	0.09	0.47	0.40	0.07	0.83	0.70	0.13	0.77	0.65	0.12	15.75	13.35	2.40
334	CEMENT	5.19	4.4	0.79	3.19	2.7	0.49	0.35	0.30	0.05	0.50	0.42	0.08	0.63	0.53	0.10	0.66	0.56	0.10	10.51	8.91	1.60
	TOTAL	18.18	15.4	2.78	11.92	10.1	1.82	2.47	2.10	0.37	2.69	2.28	0.41	1.81	1.53	0.28	2.06	1.74	0.32	39.11	33.15	5.96
1980																						
291	FOOTWEAR	4.13	3.5	0.63	3.66	3.1	0.56	1.77	1.5	0.27	2.48	2.1	0.38	0.41	0.35	0.06	0.78	0.65	0.13	13.22	11.20	2.02
311	FERTILISER	2.00	1.7	0.30	1.89	1.6	0.29	0.42	0.36	0.06	0.21	0.18	0.03	0.41	0.22	0.06	0.19	0.16	0.03	4.98	4.22	0.76
321	PETROLEUM	11.33	9.6	1.73	6.61	5.6	1.01	0.85	0.72	0.13	0.85	0.72	0.13	1.06	0.90	0.16	0.96	0.81	0.15	21.65	18.35	3.30
334	CEMENT	6.84	5.8	1.04	4.48	3.8	0.68	0.71	0.60	0.11	0.79	0.67	0.12	1.01	0.86	0.15	1.06	0.90	0.16	14.90	12.63	2.27
	TOTAL	24.30	20.6	4.03	16.64	14.1	2.54	3.75	3.18	0.57	4.33	3.67	0.66	2.89	2.33	0.56	2.99	2.52	0.47	54.75	46.4	8.35

NOTE: SP = Value at Shadow Prices; WP = Value at World Prices;
SP-WP = Difference (i.e. Δd_f). Figures are subject to errors of rounding.

Source: Calculation based on Table 8.7

estimates. For one thing, the devaluation of the Ghana cedi in July, 1967 helped to rationalise its official price. Pre--1967 and post--1970 rates seemed out of tune and artificial for purposes of analysis. Thus we have adopted the 1967 rate of divergence in Ghana as the proxy data for the rates of divergence operational within the GECS over the same period.

Our results are presented in Table 8.8. The calculations are very simple. Table 8.7 already contains the integration-induced VAD estimates which were based on world prices. To arrive at the shadow price of each item we merely increased its value at world price by 18%, the rate of divergence being the difference between the shadow price value and the world price value.

Although, as Table 8.8 shows the difference with respect to individual products is not much, the same cannot be said of the total or overtime. By 1975 the rate of divergence will amount to about US $6 million and over US $8 million by 1980. And as the range of products entering intra-zonal market widens the figures would continue to increase - all things being equal.

(v) EVALUATION OF THE CAPITAL COST OF PROJECTS (ΔK).

Unlike foreign exchange savings, the capital costs of integration projects in the original Andics - Dosser model[48] were treated as a negative item in the welfare sense because in the absence of a Common Development Bank members[49] would invest large sums of money competing for alternative

47. The other countries covered in the exercise include: Kenya with a divergence rate of 11.2%; Tanzania, 11.7%; Uganda, 9.5%; Jamaica, 9.1% Trinidad, 7.2%; Ceylon, 10.7%; Malaysia, 6.2%; and El Salvador, 8.0% (see J.C.Leith, Op.cit).

48. See Andic, et al Op.cit., P. 39.

49. Surely, this does not imply that capital raised through a Common Development Bank has no opportunity cost. But the availability of loans from such a bank would free capital generated from internal sources for other competing uses.

ends in the new integration projects. But in our own case we described ΔK as the capital cost of the unused portion of the regional industry's capacity and/or the cost of expansion to a particular country's account (chapter 7). In the cases we examine the industries have been established already and the costs incurred and the industries could continue to exist with or without economic union of any kind. Hence the effective use of that portion of the capacity of existing plants which hitherto had been idle should be seen, even allowing for the "user" cost arising out of plant maintenance, as a positive rather than a negative contribution to welfare.

But, given our definition of I (as integration-induced VAD) and our assumption of complete import replacement, this contribution to welfare must have been allowed for in the estimate of VAD (which includes non-industrial costs, labour income and operating surplus).[50] It therefore follows that in order to avoid the error of double-counting the estimated value of ΔK will not count towards the determination of ΔW. Nonetheless, the issue of capital requirements and utilization needs to be fully indicated in this subsection for its importance with particular reference to establishing financial institutions for promoting integration industries within an integration scheme.

In the particular case under review not all the industries, as we shall soon see, have enough excess capacity to produce the additional output required to supply the entire regional market up to 1980 in the absence of extra-area imports. The inference from this is that some plants will be expanded at an additional cost in order to meet the level of intra-zonal

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50. Both the benefit from fuller utilization of existing capacity and the attributable cost of new capital with respect to the expansion of existing capacity have been taken care of in the estimate of VAD and cannot justifiably be counted again as part of ΔW.

demand. This additional capital cost of expansion since it is integration-led is a loss item to a given country's account. Thus whether ΔK would be positive or negative in this case cannot be determined a priori; it all depends on whether the assessed value of the excess capacity of plants mobilised is greater or smaller than the additional expenditure incurred in the expansion of plants. Needless to say, where both values are equal, ΔK would be zero.

Based on the 1970 world prices, the estimates of the capital cost of individual projects have been made (Table 8.9). Our estimates utilised the data on industrial studies provided in the previous chapter. As Table 8.9 illustrates, the figures in the first column represent the estimated capital cost of each plant in each country but the data in the second column where such existed are the assessed values of the unused portions of existing plant capacity. The figures in brackets will be explained later. The initial values of the projects were obtained from ECU-SEDES studies[51] whilst the "excess capacity" value in each case was arrived at by multiplying the total value of each project by the percentage of its capacity that is unutilised. The results reveal the structure of utilisation of capacity in the industries reviewed.

The degree of under-utilization of existing capacity varies not only from plant to plant but also from country to country. But it is more pronounced in Ghana than in other countries. The relatively higher level of capacity utilization in

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51. See E.I.U., et al, Op. cit., Vols. 1-3. The information obtained from this source is tentative as the authors had difficulties in trying to cross-check their figures from official files. However, this is the only source of information readily available on this.

TABLE 8.9

ESTIMATED COST OF INTEGRATION PROJECTS AT THE BEGINNING OF 1970 (US. $mn)

ISIS CODE	INDUSTRY	GHANA		IVORY COAST		NIGER		UPPER VOLTA		DAHOMEY		T O G O		REGIONS	
		T	U	T	U	T	U	T	U	T	U	T	U	T	U
291	FOOTWEAR	2.00	0.50	3.00 (0.30)	0.30	0.29	-	0.06	-	-	-	-	-	5.35	0.50
311	FERTILISER	8.50*	3.40	6.00	1.30	-	-	-	-	-	-	-	-	14.50	4.70
321	PETROLEUM	23.00	9.20	16.00	-	-	-	-	-	-	-	-	-	39.0	9.20
334	CEMENT	18.90	3.10	7.95	1.10	2.63	0.40 (0.3[illegible]			3.00	1.20	-	-	32.48	5.45
TOTAL		52.40	16.20	32.95	2.40	2.92	0.05	0.06	-	3.00	1.20	-	-	91.93	19.85

Note: T = Total initial cost of project; U = estimate of the value of the untilised portion of plant capacity; the values are given at 1970 prices.

() = Figures in brackets represent additional cost of expansion.

* = In our discussion of regional fertiliser projects in chapter 7 no specific mention was made of the Ghanaian plant because the ECA survey on which the discussion was based was carried o out before the establishment of the project (see, CBS, Economic Survey, Accra, 1970).

SOURSE: Estimates based on the data obtained from E.I.U, et al, Op. cit., Economic Survey and Chap. 7.

the Ivory Coast may be attributable, in part, to the size of its exports to the other Entente states. Size of plants also accounts for the lower level of capacity utilization in Ghana for the Ghanaian plants, except in the case of footwear, are uniformly higher than the Ivorian ones. In the other GECS countries however under-capacity utilization could be blamed chiefly on demand factors.

Given the assumption that economic integration would ultimately lead to full utilization of existing plant capacity, we have examined our case in the light of this presumption. The demand projections discussed in the previous chapter indicate that the capacity of existing plants to produce the additional output required by all intra-union consumers, if all imports were domestically produced, varies. The oil refineries and the fertiliser plants have enough capacity to meet intra-union demand up to 1980[52] whilst the other plants can only supply the union market up to 1978. This means that the footwear and cement factories will be expanded after 1978 to meet the level of intra-area demand up to 1980.

Because the end of 1980 is the terminal date of our demand projections, the additional cost of expansion required to meet the projected consumption level up to 1980 with respect to the two products noted above must now be estimated. In view of the small volume of additional output required over a two year period, 1979-80, it would be economically wiser to concentrate expansion in one plant in each industry, since, as we noted in the previous

52. It can be argued that some additional resources, namely recurrent expenditure would be required to fully utilise, the excess capacity of these plants. This is certainly true. But, given the highly capital intensive nature of oil refineries, the additional cost of fully utilising the plants in relation to their value would, in this case as in all the others be very marginal indeed - hence we are ignoring this particular consideration.

chapter, these plants were constructed for easy expansion. Considering also the need for equity and diffused development within an integration scheme, we decided on a careful examination of Table 8.9 that the following plants should be expanded: the footwear factory at Abidjan (Ivory Coast) and the cement plant at Malbaza (Niger). To guage the cost of expansion in each case, we multiplied - in the absence of actual expansion data - the unit cost[53] of each product by the quantity of it needed over a two-year period to arrive at an indicative estimate of the cost of expansion. Both the unit price data and the additional demand figures were obtained from the data supplied in the preceding chapter. The results, which are $0.3 million for the footwear plant in the Ivory Coast and $0.35 million for the cement factory in Niger, are presented in brackets in Table 8.9.

We contended earlier that whether $\triangle K$ is a positive or negative item depends on whether the value of excess capacity (i.e. the value of the unused portion of the intial capital expenditure) is higher or lower than the additional cost of expansion. In this case all the relevant data are presented in Table 8.9. As the Table clearly shows the value of $\triangle K$ is uniformly positive in each case. The only notable exception concerns the footwear industry in the Ivory Coast, where the cost of expansion cancels out the value of unutilised capacity. That is, if we deduct $0.30 million being the assessed value of the unutilised portion of the footwear plant from $0.30 million which

53. The unit cost here includes raw materials, interest and depreciation, labour cost, overhead and profit.

is the additional cost of expanding the plant, the net value of ΔK would be zero. With respect to the cement plant in Niger, the cost of expansion ($0.35m) is less than the value of the unused part of the plants capacity ($0.40 million), hence the value of ΔK in this case would be $0.05 million. In the other cases where no expansion costs were incurred the value of the unutilised portion of plant capacity in each establishment automatically became the value of ΔK.

For purposes of comparison we disaggregate in Table 8.10 the 1970 estimates of ΔK. We are specifically interested in knowing the different values of ΔK in 1975 and 1980 respectively. This certainly calls for two different assumptions with respect to the lives of projects since the lives of projects determine the rates of depreciation of plants. In other words, to determine the 1975 and 1980 values of ΔK from 1970 figures, we assume project lives of 5 years each to arrive at the 1975 value but 10 years is assumed for the estimate for 1980.

Table 8.10

Disaggregated Estimate of cost of Projects in US $m.

t	Ghana	Ivory Coast	Niger	Upper Volta	Dahomey	Togo	Region
1970	16.20	2.40	0.05	-	1.20	-	19.85
1975	3.02	0.49	0.01	-	0.23	-	3.75
1980	1.50	0.25	0.00	-	0.11	-	1.86

Source: Calculated from Table 8.9

Given these assumptions the corresponding compound depreciation rates for 1975 and 1980 would be 14.87% and 7.18% respectively.[54] These are rates that would reduce any given value, when applied, to zero after a stated time period. We applied these depreciation rates to obtain the figures in Table 8.10.

The above results are consistent with common experience. Plants depreciate in value as they grow older, hence the value of $\triangle K$ depends on time.

Before we conclude this chapter, a consideration of the transport factor is important. Of course, as in the case of capital, the results obtained from the following analysis fall outside our estimate of the welfare benefits of integration because of the danger of double counting. Our earlier estimate of VAD took the transport-cost factor into consideration. Nevertheless, a quantitative assessment of the transport problems of the region would help to focus attention on the effects of transportation on prices and investment locations.

(vi) THE TRANSPORT-COST FACTOR

Chapters 2 and 7 have discussed various aspects of the transport problems of the region. Here we merely want to put a figure on these earlier discussions. For the purpose of this estimate, we assume two production zones for each industry: the Southern Zone (comprising Ghana, Ivory Coast and Togo) and the

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54. For the formula and compounding rates of growth/depreciation, see H.T. Burley, Growth Rate Tables, Cambridge University Press, 1966 PP. 10 and 23.

Northern Zone (comprising of Niger and Upper Volta)[55]. It has been shown in the section on industrial studies that, given a similar scale of operation, production and distribution costs within each zone will reveal marginal differences. Similarly, the average c.i.f. price of imports in the coastal areas are comparable to the average ex-works price of local products at the coastal/southern production points (see Tables 7.8, 7.15, 7.18 and 7.21). Since there is little or no marked difference between the average ex-works price of southern products and the average c.i.f price of the imported ones we can obtain an indicative estimate of the additional transport cost of home production vis-a-vis imports and/or the additional cost of northern vis-a-vis exclusive southern production simply by comparing the two zonal prices. Cost differentials in some products vary very widely between the two zones. This no doubt arises from the existence of some suboptimum production points. Viewed from the regional standpoint this entails some measure of welfare loss, though there may be offsetting political considerations. But our concern is economic.

Having assumed for analytical simplicity two production-consumption price zones, the average consumer price in each zone has been determined as the effective zonal price. The difference between the prices of any one commodity in the two zones forms a part of the cost of integration. And, in the circumstances of the region, this is principally attributable to differences in

55. It is assumed that it is a matter of indifference whether plants are scattered throughout a "similar cost" area or concentrated in one place. From a practical point of view a spread rather than a concentration of plants is preferable, although costs may not be seriously affected.

TABLE 8.11

AVERAGE WHOLESALE PRICE DIFFERENTIAL, 1975 & 1980

ISIS CODE	INDUSTRY		NORTHERN ZONE	SOUTHERN ZONE	DIFFERENCE/TRANSPORT COST	PRODUCTION/TRANSPORT COST TO REGION (i.e. TOTAL NORTHERN CONSUMPTION)
		1975	US ¢ per pair	US ¢ per pair	US ¢ per pair	U.S. $mn.
291	FOOTWEAR		....	....	....	?...
		1980	....	....	....	....
		1975	US ¢ per ton	US ¢ per ton	US ¢ per ton	
311	FERTILISER		....	....	....	....
		1980	....	....	....	....
		1975	37.10	32.30	4.80	0.71
321	PETROLEUM					
		1980	37.10	32.30	4.80	1.15
		1975	61.00	29.00	32.00	1.44
334	CEMENT					
		1980	61.00	29.00	32.00	1.92
		1975				
	TOTAL		-	-	-	-
		1980				

NOTE .... = negligible

SOURCE: See Table 7.8, 7.16, 7.18, 7.19, and 7.21.

transport costs and tariff charges (Table 7.1). When the unit price differential is multiplied by the total volume of imports by the high cost consumers,[56] the total regional cost per commodity is derived. This has been done in relation to the commodites shown in Table 8.11. Evidently, the table shows what the region would be lossing at any point in time if the high cost producers and consumers maintained their price levels.

As we noted earlier, unit price differentials in footwear are very neglible and fertiliser products are subject to heavy subsidy in some countries. For lack of accurate data on the subsidy levels and price distortions created by the subsidy itself, the estimate of real price differentials here has not been deemed of much explanatory value. Even so, the volume of this product entering the regional market can only make a marginal difference.

With respect to the rest, especially cement, the difference is phenomenal. For cement it is $32.00 but only $4.80 per ton for petroleum. The operation of these suboptimal prices will involve additional transport/production cost of $2.15 million in 1975 and will progressively increase to $3.07 million in 1980.

The operation of two wide-ranging sets of prices within a group - one of which is pptimal from the regional viewpoint and the other sub-optimal - raises a crucial question for members. This question is: Can a single delivered price operate throughout the unified market irrespective of cost differentials? The obvious answer to this key question, which is yes, touches upon all facets of the

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56. In our situation, the high cost consumers are also the high cost producers hence the two terms are used synonymously. The upland states of Niger and Upper Volta are very remote from the sea. And whether they import consumer goods produced in the coastal countries or imported inputs from the rest-of-the-world, long land haulage from the sea will increase their unit price.

wider question: How can the costs and benefits of economic integration be equitably distributed among the participants? This problem has for some time engaged the attention of some experts in this field[57] who attached special importance to it. Indeed, as demonstrated in chapter 5, the success or failure of any regional grouping depends upon the acceptability of the formula offered in solving the equitable distribution problem by all the parties concerned. Because the next chapter will be devoted to a full discussion of this issue with a view to offering policy guidelines, we have only posed the question here without answering it. But it may be asserted that a pricing policy written into the common market agreement can by offering subsidies - financed from a common pool - to the high cost intra-union importers maintain a single delivered price for each commodity throughout such economic community, even if this means operating two sets of prices - one for intra-union trade and the other for extra-union transactions.

3. RESULTS AND SUMMARY

An estimate of the benefits and costs of integration to central-west Africa has been made in the foregoing section. The results are summarily presented in Table 8.12

The net welfare gain from integration, as shown in column 6, is derived from the expansion of the four industries studied. This benefit is the sum of value-added (col.2) and foreign exchange savings (col.3) minus the national

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57. See Peter Robson, "Current Problems of Economic Integration", Op.cit. PP. 15-37; R.S. Bhambri, "Customs Unions and Underdeveloped Countries", in Economic Internazionale, (Geneva), Vol.XV, No. 2, May 1962, PP. 20 and 22; M.S. Wionczek (ed.), Economic Co-operation in Latin America, Africa and Asia, Op.cit; and D.M.Schydlowsky, "allocating Integration Industries in the Andean Group", Journal of Common Market Studies, Vol. 9 (4), June, 1971.

income loss (Table 8.5). Columns 4 and 5 are culled from the intra-union trade matrix in Table 8.4. That columns 4 and 5 are equal is hardly surprising. This is because under our assumption of complete import replacement the total value of intra-union experts and imports must be equal (col.4). Similarly, whereas the "concessions" column represent the benefit of trade diversion to the exporter (i.e. the "received" sub-column refers to export receipts of the intra-union exporter), and the equal and opposite cost of trade diversion to the importer (i.e. the "given" sub-column relates to the expenditure of the intra-union importer), the sum of export receipts and aggregate expenditure on imports in this case are bound to be equal. Thus, the two columns, though supposedly different, offer the same information here. With respect to the first column some allied economic indicators have been shown not only to reflect the relative strength and consequent impact of integration on the individual economies but also for comparative purposes.

From the standpoint of the impact of economic integration on the economies of GECS, we are more interested in the last column of Table 8.12. As it clearly shows, the bulk of the net welfare gain goes to Ghana and Ivory Coast. For instance, by 1980 about half of the regional total will go to the former alone whilst another third will go to the latter. Only about 1/6 will accrue to the other four weaker members. The welfare benefit from integration for the GECS as a whole, of course, will amount to slightly over $35 million in 1975 and about $49 million in 1980. It is of the order of 10.2% of the forecasted value added in manufacturing in 1975 and would progressively account for 11.5% by 1980.

	GMPs	Value added in Manu-facturing	Consump-tion of Integra-tion Products	Value Added (US $mn)	Foreign Exchange Savings (US $mn)	Exports	Imports (US $m)	Balance	Received	given	balance	Net Welfare Gain (US $mn)
GHANA												
1975				15.40	2.78	2.37	-	+2.37	2.37	-	+2.37	18.18
1980				20.60	4.03	3.68	-	+3.68	3.68	-	+3.68	24.63
% of GECS total (1980)	42.1%	49.2%	41.6%	44.40%	45.6%	63.7%			63.7%			49.8%
IVORY COAST												
1975				10.10	1.82	1.32	-	+1.32	1.32	-	+1.32	11.92
1980				14.10	2.54	2.03	-	+2.03	2.03	-	+2.03	16.64
% of GECS total (1980)	32.3%	42.0%	39.1%	30.40%	28.8%	35.1%			35.1%			33.7%
NIGER												
1975				2.10	0.37	0.12	0.55	-0.43	0.12	0.55	-0.43	1.54
1980				3.18	0.57	0.07	0.78	-0.71	0.07	0.78	-0.71	2.23
% of GECS total (1980)	7.5%	3.1%	5.5%	6.9%	6.5%	1.2%	13.5%		1.2%	13.5%		4.5%
UPPER VOLTA												
1975				2.28	0.41	0.07	0.82	-0.75	0.07	0.82	-0.75	1.62
1980				3.67	0.66	-	1.39	-1.39	-	1.39	-1.39	2.50
% of GECS total (1980)	7.3%	1.5%	4.7%	7.9%	7.5%		24.0%			24.0%		5.1%
DAHOMEY												
1975				1.53	0.28	0.11	0.93	-0.81	0.11	0.93	-0.81	1.16
1980				2.33	0.56	-	1.25	-1.25	-	1.25	-1.25	1.71
% of GECS total (1980)	5.2%	0.8%	5.2%	5.0%	6.3%		21.6%			21.6%		3.5%
TOGO												
1975				1.74	0.32	-	1.69	-1.69	-	1.69	-1.69	1.19
1980				2.52	0.47	-	2.36	-2.36	-	2.36	-2.36	1.73
% of GECS total (1980)	5.6%	3.1%	3.9%	5.4%	5.3%		40.8%			40.8%		3.5%
GECS TOTAL												
1975				33.15	5.98	3.99	3.99	0	3.99	3.99	0	35.61
1980				46.40	8.83	5.78	5.78	0	5.78	5.78	0	49.44
% of GECS total (1980)	100%	100%	100%	100%	100%	100%	100%		100%	100%		100%

*The products covered in this study include: Cement, Fertiliser, Footwear and Petroleum.

SOURCES: Culled from Chapter 7, and Tables 8.2, 8.4, 8.5 and 8.8

This would imply an integration-induced improvement in the region's growth rate of GNP of 0.7% in 1975 and 0.9% at the end of 1980. In other terms, with integration, the average intra-group rate of growth would be of the order of 5.7% in 1975 and of 5.9% in 1980. Without it, the rate would tend to stagnate at around 5% over the period 1975-80.

The weakness of the statistical foundation of our estimates notwithstanding, it is clear to see that economic integration holds out the prospect of improvement in the economic performance of the region. This conclusion becomes all the more inescapable when product market co-operation is extended to a wider range of products in which intra-union trade is both feasible and profitable. Aside from the four industrial products studied, potentials for intra-zonal trade exist in several other manufactures (Table 7.22). Ghana could further export the following to the Entente states: semi-finished metal products, blankets, enamel utensils, stocks and stockings; and could, on the other hand, import: cotton textiles, synthetic fibres and garments, sisal cord and rope, fibre sacks and leather, and, in the longer term, bicycles[58]. The exploitation of these potentials, no doubt, would substantially increase the contribution of economic integration to the economic growth of the region.

The structure of industrial production would also benefit from integration. In the first place, there would be a certain degree of specialisation involving considerable rationalization of the existing structure and adherence to the "doctrine" of comparative advantage. In consequence, wastes would not only be minimised but also there would be a greater emphasis on heavy industries with

58. See E.I.U and SEDES, Op. cit., Vol. III, PP. 85-88.

regional integration than with six separate national markets. Over time it would not be unreasonable to expect the share of industrial production in GNP vis-a-vis agriculture to increase. Furthermore integration-led industrial expansion means, subject to the techniques employed, more jobs. Given, as noted earlier, the level of unemployment in the region, job creation is an important economic as well as political policy goal. The available data on employment in the industries reviewed are sketchy to permit any satisfactory estimate on which to base firm conclusions. Nevertheless, the patchy information (MIU & SEDES) indicates that the full utilization and/or expansion of the industries under consideration will generate an additional employment of 350-450 workers between 1975 and 1980.

In conclusion, one can say that, in an era when many people from the LDCs are beginning to think that insofar as their future development was concerned they have to pull themselves up by their own bootstraps, economic integration between LDCs offers some non-quantifiable psychopolitical reassurance and satisfaction. But, if such satisfaction is to last, as we shall show in the succeeding chapter, the distributive mechanism of the integration scheme must stand the test of time.

CHAPTER NINE

IMPACT EFFECTS OF MARKET INTEGRATION

The previous chapter identified and quantified the principal sources of gains or losses arising from the various effects of economic integration. But it is not necessarily the magnitude of these benefits and/or costs that ensures the effectiveness and cohesion of integration arrangements. It is rather the establishment and effective implementation of a fair and acceptable distribution formula. Experience suggests that in already existing schemes where inadequate attention has been given to the problem of equitable distribution of the fruits of integration tensions have arisen. Indeed, as we have shown earlier, some arrangements have been unanimously dissolved as in the case of UDEAO. Others like the UDEAC have broken down, whilst some more, such as LAFTA, have become for all practical purposes weak preferential trade zones which are largely ineffective umbrellas over the heads of several groups with conflicting immediate interests.[1] Even the EACM which is the most successful integration experiment on the African continent to date was in March 1964 narrowly salvaged from disintegration which had threatened it. And the crisis was rooted in the glaring inequality in the distribution of the common market benefits. In this chapter we review the major causes of friction and uneven distribution of the benefits of integration with a view to making some recommendations.

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1. See M.S. Wionczek (ed.), Economic Co-operation in Latin America, Africa and Asia, Op. cit., P.11

1. CUSTOMS REVENUE EFFECTS AND THE ACTUAL DISTRIBUTION OF COSTS AND BENEFITS

One of the problems which countries entering an integration scheme has to face is the prospective loss of customs revenue. This is a matter of considerable importance to many LDCs, especially those of Africa South of the Sahara where customs duties normally account for a large share of total government revenue[2] and also where the raising of revenues from other sources is difficult. Indeed, since revenue duties are primarily levied on manufactured goods, and whereas the objective of integration schemes is the progressive replacement of manufactures imported from outside the integrated market by goods produced within it, the loss of customs revenue is likely to be quite large if the scheme succeeds in its purpose.

However, in the cases considered in this study, it is not thought that the loss of customs revenue will deal a crippling blow (Table 8.5). But this is because we have considered only four products. When the product coverage of integration industries starts to widen, as it is hoped, the effect would be quite considerable. Thus the problem must be thoroughly examined and a specific solution formulated from the outset.

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2. See Table 6.2 for the cases under review.

The loss of customs revenue has two dimensions. It occurs both in the countries that establish industries to replace imports from outside the integrated market and in their partner countries that import their products. Viewed from the side of the producing countries, governments will - albeit small[3] - gain revenues from the taxes paid by the producing firm and the manpower it employs (chapter 8), which, it is hoped, will compensate in varying degrees for the loss of customs receipts, whereas the governments in the importing countries might not have offsetting increments in tax receipts.[4] Also from the standpoint of the intra-union importing partners trade diversion quite often means not only loss of customs revenue but also, at least in the short-run, more expensive goods than those from third countries. Because the weaker importing partner countries would pay higher prices for similar goods hitherto imported from third countries, the balance of trade and payments of these countries would consequently be worsened.

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3. Tax receipts from income and company profits usually form a small portion of government revenue in most LDCs. Between 1965 and 1968 the average value of tax receipts from these two sources accounted for only 12% of the total public revenue in the Ivory Coast, 10% in Dahomey, 8% in Niger, 13% in Togo, 16% in Upper Volta and 18% in Ghana. Over the same period the computed average share of import duties in total public revenues of these countries was 49.3% (see IMF, Surveys of African Economies, Vol. 3, 1970 as well as Table 6.2). It is clear from these figures that extra receipts from direct taxes following economic integration can only mitigate rather than offer an adequate compensation for the corresponding loss of customs revenue.

4. As we noted in the preceding footnote, extra direct tax receipts may not be large enough to offset the revenue loss from customs duties. Even so, there is no reason why union members may not permit those most badly hit in the overall interest of the grouping to introduce substitute revenue duties (such as consumption and sales taxes) on a non-discriminatory basis (i.e., levied equally on domestic production, imports from partner countries and imports from third countries). The extent to which members suffer from the revenue loss effect of integration depends on the type of compensating arrangement worked out in a given situation (See U.N., Current Problems of Economic Integration, "The distribution of benefits and costs and integration among developing countries," N.Y., 1973 (TD/B/394), P. 17.

Of course, each member of an integration scheme will eventually become both a producer of exports to its partners and an importer of the latter's exports (Table 7.22), so that each government will have some additional tax receipts from enterprises supplying the subregional market to compensate for losses of customs revenue; and this customs revenue loss in our case is taken to be about twice[5] the real national income loss occasioned by trade diversion (i.e. double the cost of trade diversion) which was estimated in the previous chapter (Table 8.5). Even so, to the extent that the more developed common market partners will tend to attract a disproportionate share of new industries, for reasons previously mentioned, they will tend to become net exporters of manufactures to their less developed partners (Table 8.4) and they will be able to offset losses of customs receipts by additional tax revenues from productive activities to a greater extent than the less developed member countries.

Although, conceivably, the loss of customs revenue constitutes a loss of real resources for the importing country, it can, as already noted, be recovered through other fiscal arrangements.[6] For it can be argued that the elimination of import duties, like the remission of any other indirect tax paid by the citizens of a country, simply reduces the share of income obtained

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5. This is consistent with our earlier definition and assumption relating to the computation of the national income loss (See section 2(iii) and footnote 33 of chapter 8).

6. For a useful exposition of this idea, see P. Robson, Fiscal Compensation as a Means of Contributing to an Equitable Distribution of the Costs and Benefits Associated with Economic Groupings of Less Developed Countries, Geneva, 1970.

by the government. The government could in theory offset the loss of customs revenue, for example, by imposing an excise duty or domestic sales tax on certain categories of goods regardless of their origin (footnote 4). In practice, collection of such taxes may be administratively difficult and expensive.[7] Hence an alternative means of compensation for the revenue loss may have to be devised.

However, before we go on to suggest alternative means of compensation for the loss of revenue, it is pertinent at this point to recall the estimate of the magnitude of the NIL arising from market integration in the specified products which we presented in Table 8.5. Based on the intra-union trade matrix the estimate of the NIL was obtained for each country, except Ghana and Ivory Coast for which no losses are involved since they do not import any of the commodities examined.

Table 8.5 figures depict the NIL, which, as we noted above, is only 50% of the customs revenue loss. That is: the magnitude of the latter would be twice that of the former. In practical terms, this means that for the GECS group the customs revenue loss will amount to about US $7.0 million in 1975, increasing to US $11.58 million by 1980. Although for the group as a whole the magnitude of this loss would not be particularly crippling, it is neither fairly distributed individually nor borne by all. No doubt, for the four poorer members of the grouping to bear such a loss in four products alone would hurt their economies individually and collectively - hence the need for some action.

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7. See UN (ECA), Economic Co-operation and Integration in Africa, Op. cit, P. 32. But, even if revenue losses can be recovered, the cost of trade diversion would still remain.

From the foregoing it follows that losses have been incurred and the cardinal question now is how to offset or mitigate them. As we have repeated earlier, given the apriori reasoning that inta-regional trade expansion will generate additional tax receipts from the expanding subregional enterprises and additional labour employed, part of these losses could be offset.[8] But generating additional tax receipts is one thing and quite another to ensure their even distribution within the integrated area. Thus, herein lies the case for a regional formula for mitigating the costs, and fairly distributing the benefits, of market integration.

The formulation of a possible equitable distribution mechanism, of course, must necessarily start with an examination of the actual distribution of the costs and benefits of market integration in the designated products. The actual or what we might call "laisses faire", distribution of these costs and benefits was summarised in column 6 of Table 8.12.

A close examination of the Table reveals some important features. The gains or losses which result from market integration are not evenly distributed within the integrated area. The more advanced countries (i.e. Ghana and Ivory Coast) have a very disppeportionate share of the total benefits. The two countries combined would obtain 84.5% of the total net benefits in 1975 and a slightly lower figure of the order of 83.5% in 1980. Individually, shares of Ghana and Ivory Coast would account for 51.1% and 33.5% respectively in 1975 and similar ratios would be maintained by 1980.

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8. Although this argument is fairly true in the case examined here, it requires some qualification. Expansion of production where underutilization of labour has persisted may not lead to substantial additional employment of labour, if any. The same will be true if the technique of production changes in favour of capital intensity.

This means that the combined shares of the other four countries would account for only some 16% of the total net benefits all the time.

Another interesting feature of this distribution pattern is that the shares of the poorer member states, both in relation to costs and benefits, are fairly more even relative to those of the richer members. This implies that the focus of attention in regard to distributional equity would be mostly concentrated on the gap between the "rich" and the "poor".

Thus, the most important conclusion one can draw from Table 8.12 is that the distribution of the envisaged benefits and costs of market integration in the GECs states would be disproportionately skewed in favour of Ghana and Ivory Coast to the disadvantage of the already poorer states. When, as we shall do later, the actual pattern of distribution is compared with a more equitable distribution proposed in this study, the unfairness implied in the acutal distribution will become more glaring.

Because in terms of economic development the members of the proposed GECS common market fall into two categories - the poorer and the more advanced - any feasible solution to the problem of equitable distribution of costs and benefits, especially the revenue loss issue, must reflect this phenomenon.

Conceivably, this would imply granting certain concessions to the poorer members in respect of freeing of trade. It may be in two phases. During the first phase the poorer members could be allowed four of five years than the more advanced countries to eliminate tariffs, even if the latter's gains would be reduced.

That is: they will have until 1980 to do so instead of 1975.[9] When the first phase is over and tariff has been eliminated the acutal problem of uneven distribution of the loss of customs revenue will come to the fore.

To deal with the problem a form of compensatory tax can be devised which we shall call "Offsetting Tax" (OT). Both in feature and orientation this will be very similar to the device which has been introduced in the Central African Customs and Economic Union (UDEAC), the so-called "taxe unique". The tax unique, which is tantamount to an excise duty, is collected on finished products at the source of production in return for the exemption of manufactures from import duties on raw materials and equipment coming from third countries.[10] The rates of the OT, like the "taxe unique", would be considerably lower than the import duties and taxes on equivalent imports and the proceeds from this excise tax would be transferred to the treasuries of member countries consuming products of regional origin covered by this fiscal arrangement.

The principle aim of OT is to compensate for a fall in fiscal revenue resulting from the elimination of duties on goods from intra-union sources and to distribute the revenue fairly; but it is capable of achieving two other important goals: (a) to encourage the local manufacture of consumer goods; and (b) to ensure sufficient control over exemptions granted on imports

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9. This kind of concession is not uncommon. Under the subregional Agreement of the Andean Common Market Bolivia and Ecuador, which are relatively underdeveloped, enjoy special treatment and concessions. The logic of less skewed development demands this treatment. See W.P. Avery and J.D. Cochrance, "Subregional Integration in Latin America; The Andean Common Market," Journal of Common Market Studies, December, 1972, Vol. XI, No, PP. 85-102.

10. M.S. Wionczek (ed.), Economic Co-operation in Latin America, Africa and Asia, Op. cit., P. 235.

of raw materials or equipment used in local manufacture while encouraging the infant industries concerned.[11] The efficient operation of the CT would require close administrative co-operation between Ghana and the Entente States in the field of tax collection. Also some co-ordination of investment policies would be desirable to avoid serious distortions in conditions of production. A common investment regime would not only provide for the incorporation of regional enterprises needing access to the regional market into CT scheme but it would also provide for the co-ordination of foreign investment regulations which contain differences in incentives offered in different part of the region. Such co-ordination would not necessarily imply uniformity, as differences in the incentives offered to foreign investors might be desirable in order to offset the relative disadvantages of some locations over others and to help a flow of investment into the partner countries in accordance with the regional strategy of diffused development. However, such mutually agreed differences must be sharply distinguished from differences based on historical accident or reflecting unilateral competitive decisions of the partners to secure investment at each other's expense.[12]

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11. The East African Common Market counterpart of the CT is the transfer tax which is one of the important provisions of the 1967 Treaty. Under the transfer tax provisions it is permissible under certain conditions for the industrially less advanced union members to impose what is in effect a tariff on imports of manufactures from their more advanced partners for the purpose of protecting their own manufacturing industries. See P. Robson (ed.) International Economic Integration, Op. cit. P. 427.

12 The political difficulties of formulating a co-ordinated investment scheme could be very formidable indeed. In spite of their reasonably good record the three members (Kenya, Uganda and Tanzania) of the EAEC have not as yet been able to reach agreement on this matter. The Kampala Treaty merely includes a declaration of the partner States "that they shall use their best endeavour to agree upon a common scheme..." (See Article 19 of the Treaty for East African Co-operation reproduced in M.S. Wionczek (ed.) Op. cit., PP. 168 - 233.

In a way the application of the OT arrangement should be seen as a medium - term solution. In the very long-run it would be advisable on practical grounds for the governments of the GECS states to consider a general tax reform of their tax systems with a view to reducing their dependence on revenue duties through the introduction of a system of consumption taxes. Unquestionably, this would eventually become necessary even in the absence of an integration scheme, since national import-substitution policies would, in any event, reduce the importance of customs duties as a source of government revenue.

2. POLARISATION OF DEVELOPMENT IN SOME AREAS

The geographical distribution of the dynamic effects of integration-induced growth requires a more broadly-based approach than mere fiscal adjustments. And in order to devise a meanigful formula for the exercise, a closer look at the factors responsible for polarisation is called for.

Integration enthusiasts are prone to assume that a free trade area or common market will further economic equality. Apparently, this view is based on elements of several theories.[13] One is that rising levels of national income (fostered in this case by the common market) will naturally lead to more equality within the GECS. A second theory is that increased trade, by reducing disparities between factor prices, will help to equalize incomes. The third is that a common market will create new opportunities, which being new and open to utilization by new investors or entrepreneurs, will lead to a wider spread of wealth.

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13. See M. Edel, "Regional Integration and Income Redistribution: Complements or Substitutes?" in R. Hilton (ed), Op. cit., PP. 185-199.

Although each of these effects might if the circumstances are right, develop as posited, the reverse effects are also possible and can be demonstrated.

That income distribution becomes more equal during economic development is something of a tenet of faith among some influential economists.[14] It is hinted at in Rostow's dynamic of a universal drive toward a mass-consumption economy (although this does not imply universal equality as much as an enlarging of a middle class).[15] More recently, Professor Samuelson writes: "Advanced economies show less in-equality of income distribution than do preindustrial economies - contrary to the dire predictions of scientific socialists that the rich get richer and the poor get poorer under capitalism. The mixed economy shows greater equality."[16]

Undoubtedly, this view can be confronted with some factual evidence. There is a less equal distribution of income (as measured by shares accruing to the top and bottom fifths of the distribution) in many LDCs than there is in Western Europe or the United States.[17]

But there are exceptions, and these correlations do not prove causality. Indeed, time series evidence on income distribution within single countries is less consistent with the hypothesis of increasing equality. Historically, there was some narrowing of the gap between the share of income accruing to the highest and lowest fifths of the size distribution in the United States between 1929 and the end of World War II. Since then, however, relative

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14. R. Hilton (ed.), Ibid. P. 186.
15. W.M. Rostow, The Stages of Economic Growth. C.U.P., P. 963, PP. 73-82.
16. Paul A. Samuelson, Economics: An Introductory Analysis, 7th Edition, McGraw-Hill Book Company, New York, 1967, P.111.
17. Hilton, op. cit., P. 187.

income ratios have remained approximately constant. In the United Kingdom, concentration of incomes has also decreased over time. But in Germany following unification, there was an increase in inequality.[18] Since German development was, in a way, the by-product of economic integration, this might be more relevant precedent for to-day's LDCs. And what little data has become available on income distribution on currently developing areas points to the conclusion that industrialization increases inequality, at least, for a time. During the 1950's, income disparities widened both in India and Mexico.[19] Thus it seems doubtful that economic integration would, in the normal course of events, generate an automatic mechanism for ensuring the equitable distribution of the gains that accrues to it.

A second prop of the argument for the income - redistributing effects of integration turns on the theory of factor-price equalization. This familiar trade theory holds that free trade will equalize between regions the returns to any factor of production, a proposition based on the view that a factor will be more highly remunerated, before trade, in that country in which it is relatively scarcer. Perhaps, when free trade is attained, the prices of factors will tend towards the international average. But the non-attainment of a thorough-going laissez faire precludes the effective operation of the so-called factor-price equalization mechanism in the process of industrialization.

A third way in which a common market may affect income distribution is through the creation of new opportunities for money-making activities. That is - to the extent that the wider market breaks down monopolies, or creates

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18. Ibid.
19. Ibid.

the possibility of new lines of production, or removal to new areas of industries formerly restricted to the one country which had enough of a market to support them, it may open new channels of mobility which in the end lead to greater equality. However, if the opportunities created are such that only the already advantaged can benefit from them, then the geographical distribution of income may worsen.

The evidence as to which effect will be strongest rests on the particular circumstances of a case. Backward members of an integration group have sometimes progressed relatively more rapidly, as seems to be the case within the EEC where Italy has lately been the fastest growing member. More often than not it is felt that capital, which is normally mobile across borders, will be drawn to the region in which wages are lowest, thus helping to reduce the differences. Even so, there is no guarantee that this will always be the case. On the contrary, there seem, over long periods in a country or region's development, to be strong tendencies for industry to concentrate in the already most industrialized locations. As noted in chapter 3, these effects - often loosely described in terms of "polarization", "dominance" or "backwash" effects - need to be fully explored in theory. But they appear to have a basis in economies of scale in infrastructure, external economies in the labour market and elsewhere, and mutual support of market demand created in advanced subregions, when trade throughout the region, even when free of tariffs, is subject to transport costs.

The story of international common markets among LDCs is replete with cases of polarization. The reshaping of the EAEC in 1967 was precipitated largely by disputes arising from Kenya's attraction of a proportionately greater share of industries. Within the Arab Common Market Egypt occupies an analogous position.

The Central American Common Market has been affected partially by polarizing growth. In this case, the most advanced country, in terms of income levels, has not been the most rapid in its growth. But if Costa Rica has been growing more slowly than Guatemala, Nicaragua, and El Salvador, all four of these countries have greatly widened the gap between their level of income and that of the poorest and most slowly growing nation, Honduras.

A more general survey of regional inequality in national development, by Williamson to which Edel refers,[20] indicates that increasing disparities are customary throughout at least early phases of development. Thus while regional inequality becomes stable and eventually falls in the more developed countries, for countries at the African level of development the net effect of economic integration on regional economic growth might be to increase disparties between the member states, at least, until deliberate offsetting provisions are instituted.

3. EQUITABLE DISTRIBUTION STRATEGY

(i) THE CONCEPT OF EQUITY AND PRICING POLICY

Before we go into the mechanics of the actual formulation of a distribution system for the GECS, it is only necessary, as a preliminary, that the concept of equitable distribution be discussed. The conceptualization of equity or fairness in relation to the sharing of integration benefits involves a two-fold problem. The first task is to determine what is to be meant by fairness. The second difficulty is to develop an operational framework for determining, by reference to the agreed criteria, the extent to which a particular formula conforms to the criteria. There is perhaps a third problem.

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20. Ibid.

This might arise from the issues involved in the trade-off which usually has to be made, between considerations of equity on the one hand, and those of economic efficiency, on the other, which is an important corner stone on which the argument for economic integration among LDCs rests.

With reference to the concept of equity, a useful starting point must be that an integration arrangement will generate net benefits both to the group as a whole and to each individual member. By implication this means that each member of the group must be at least as well off as a member as it would be if it had not joined the scheme. It is with the distribution of these net benefits after this condition is satisfied that equity and fairness are involved.

Since we are concerned with the equitable distribution of the net benefits (i.e. total benefits minus sum of the benefits which would have accrued to each member state outside the integration scheme), it seems difficult to posit an objective criterion for determining the equity or fairness of any acceptable arrangements or their outcome. What seems compelling - if policy-oriented negotiation on integration is to be fruitful - is that there should be a substantial measure of initial agreement among the participants as to the general principles or considerations on which a judgement on the acceptability of an arrangement could be based. Furthermore, these broad principles should be capable of being referred to as standard guidelines for negotiation.

However, these guidelines will contain some "political" and "non-political" constraints which may become necessary in the light of the development objectives and strategy of the participants in order to accommodate the aspirations of member states - individually and collectively.

Article 7 of the Convention establishing the UDEAO[21] illustrates the kind of accommodation meant here. With reference to the origin principle the article says: "Product originating in the Union may move without restriction within the union. In order, however, to remedy any economic disequilibrium which might result in a member state, quantitative restrictions may be imposed by that state, on condition that it notifies the council of Ministers of the Union forthwith".[22] The safeguard clause which empowers an intra-union importer to impose quantitative restrictions for remedial and/or protective purposes takes care of the individual policy objectives which the members may have. Indeed, such a provision must be necessary in the context of the GECS in order to compensate for the structural deficiences of the relatively weaker economies of Upper Volta, Niger, Dahomey and Togo and allocation of the resources necessary for the achievement of the objectives which the envisaged union Agreement might embody in their interest.

Another important issue relating to the distribution of the costs and benefits of integration concerns the pricing policy of regional enterprises. Since integration industries (existing or prospective) cater both for their national and extra-national consumers, the formulation of an intra-union pricing policy is crucial to the distribution of the costs and benefits of integration. In this exercise the unit costs of production of such products,

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21. For detailed discussion, see chapter five.

22. See M. S. Wionczek, Economic co-operation in Latin America, Africa and Asia, op.cit., P.280. Also Article 26 of the ECOWAS Treaty, referred to earlier, empowers member states, in the event of serious disturbances occuring in their economies, to take the necessary safeguard measures pending the approval of the Council of Ministers.

including a normal profit, may not necessarily be indicative of their selling price, although, of course, the c.i.f. price of competing goods from the rest of the world will set an upper limit to the prices which will be charged after allowing for any tariff differentials. The unit costs of distribution of regional plants will evidently be an important determinant of the distribution of costs and benefits of agreed specialization.

Furthermore, the price policy adopted will determine the tariff preference; if any, which may be required to implement the specialization arrangements with respect to future projects on the trading side. These preferences, in turn, will provide one indicator of the direct costs imposed upon the participating countries by the arrangements. Each country will have to consider these costs in conjunction with any benefits it derives from its ability to purchase other products at favourable prices, and the net balance after taking this into account will in turn have to be looked at in the light of the costs and benefits associated with the investment in the industries which are allocated to it.

However, in the particular case of existing industries examined here investments in the plants have already been made. Our concern at this point therefore must be to formulate a pricing policy capable of mitigating inequities arising from the distribution of regional products within the grouping. The determination of an operational intra-union pricing policy of course raises some complex problems. The two most important elements to be considered in the price policy of regional enterprises are: ex-factory unit costs of production and unit costs of distribution to the designated intra-union markets. It is also necessary to take into account the difference between the delivered/transfer price and the price of competing goods from the rest of the world. Other factors worth remembering include the existence

of more than one plant in the same industry located at different places in one or different countries. A further related problem concerns a possible situation where the local product falls short of satisfying the regional demand. In such a case, if excess costs (i.e. local products are dearer) or benefits (i.e. imports are more expensive than local products) are involved for the regional product, some agreed basis would nefessarily have to be adopted for dividing up the cost of purchasing from expensive local sources or from third countries. In that event, intergovernmental agreement on price policy backed up by an allocation principle will be imperative.

Despite the complex nature of the considerations involved in negotiating a regional price policy, the particular case of the industries reviewed in this study seems less complicated, if only because of our assumption of total import replacement and the small volume and value of intra-union trade involved.

A useful starting point in proposing a union pricing policy for the GECS states with respect to the products of our interest must be a restatement of some of our earlier assumptions relevant to this discussion. Our calculations in the previous chapter assume, among other things, the operation of a uniform unit cost of production in each country regardless of the number of plants in each country. A uniform transfer price was also assumed.

However, these assumptions require slight modification as implied in the computations presented in Table 8.11. That is, for the purpose of determining the cost of distributing the products of regional industries, we recall the earlier assumption of two production-consumption price zones throughout the GECS states.[23]

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23. See chapter 8, section VI.

These of course are the northern and southern zones. This assumption is based on the presumption that the delivered price differentials in each zone are marginal and could be ignored; and the zonal delivered price has been based on the average consumer price of each product. The difference between the prices of any one commodity in the two zones is regarded as a part of the cost of integration and transport costs account principally for this difference.

As Table 8.11 presents, the price differentials between the northern and southern zones with respect to fertiliser, which in any case is heavily subsidised, and footwear are very negligible indeed and have been ignored. As regards cement and petroleum products the story is quite different. In both cases northern prices are for reasons of distance and poorer transport system much higher than the southern ones. Petroleum product consumers in the north will have to pay an extra $4.80 per ton whilst the cement consumers will pay a price differential of $32.00 for each ton. With the former group this will imply an additional expenditure of $0.71 million and $1.15 million in 1975 and 1980 respectively; and higher figures would be involved as regards the latter group ($1.44 million in 1975 and $1.92 million in 1980). These costs have already been taken care of in our computation and distribution of the integration - induced VAD. What is important here is to identify and isolate this element of integration-induced cost for the purpose of framing common policy. But the nature of distribution of this cost one suggests at any one time actually depends on the particular circumstances of each case. Such factors as the difference in unit cost of local product as compared with imported product, the range of products covered, the

volume and value of trade involved in relation to total and, above all, the actual estimated costs, must always be carefully considered.

Because of the small range of products covered, the tiny volume of the estimated GEOS trade and the estimated limited costs involved, the adoption of a two-tier pricing system seems capable of dealing with the distribution cost problem here. The costs to each country will evidently depend upon each country's consumption capacity of the regional products. Although the countries of the northern zone (Niger and Upper Volta) will pay more per product unit consumed, it must be remembered that this would have been the case, anyway, even if the integration scheme did not come about. And, so long as the landlocked countries use the port facilities of the inland states charges in respect of their imports of all types plus the inland transportation costs (Table 7.1), the differential between the north and south will continue to exist with or without market co-operation. Indeed, as demonstrated in chapter 7, prices <u>within</u> each of the two zones reveal marginal differences but not <u>between</u> them. Disparities between the unit c.i.f. prices of imports and the ex-works unit prices of the local products reviewed in the south are very negligible. Ironically, within the northern zone the picture is the same, subject to the nature of final products (i.e. whether weight-gaining or foot-loose). But in this case the reason is different and it has to do with local transport costs. The existence of these, more or less, two "natural" but distinct price "regions" more than anything else explains our adoption of the two-tier price system which conceivably must form an integral part of a pricing package deal mutually agreed upon from the outset.

(ii) Some Equitable Distribution System.

In discussing the appropriate equitable distribution formula for the GECS three possible criteria come readily to mind,[24] namely:

- an Overall Equal Distribution of net benefits;
- a Proportionality Distribution Formula and
- a Compensatory Equity Distribution Criterion.

Let us take them one by one. By an overal equal distribution (OED) of net benefits we mean a distributive mechanism that guarantees equal share to each participant irrespective of the size and actual contribution of individual member states. Undoubtedly, this can hardly command popular support nor be treated as fair among the six states under discussion. As demonstrated earlier, the GECS members vary considerably in size, populations, per capita income and the relative importance of their modern sector with particular reference to manufacturing (chapter 2). The immediate implication of this divergence is that the markets which each offers to the others, and from which benefits largely accure, will assume different sizes. The relatively lush markets of Ghana and Ivory Coast cannot be compared with those of the micro states of Togo and Dahomey. Given the heavy "weighting" which Ghana and Ivory Coast have and considering also that jointly they account for about 50% of the population and no less than 75% of the GDP of the GECS, it is

24. I owe this idea to my Supervisor, Professor P. Robson.

highly improbable that they will regard the OED mechanism as fair and just. It is likely to be seen as asking too much from the relatively rich members. Thus even allowing for the desire for balance in intra-regional trade and development opportunities, it is very doubtful whether the present aggr arrangement can provide a lasting solution.

Our second criterion is the proportionality distribution formula (PDF). This envisages a distribution system in which each member state gets just that proportion of the net benefits generated by it. The immediate problem the adoption of this principle raises is how to estimate the contribution of each member state. To deal with this issue, the share of each country in the total regional market might be adopted as the appropriate indicator. It is also possible to apply the market ratio of individual members of the products of selected regional industries. The combined ratios of Ghana and Ivory Coast as deduced from Table 8.12 will account for 81% and 83% in 1975 and 1980 respectively. But this will tend to reinforce unequitable distribution of the gains from trade.

Alternatively, the shares of member countries in the regional GDP or the shares of each country in the total value added in manufacturing could be employed. Given the structure of the economies under review, it appears that the proportional distribution of benefits which would be indicated by the choice of one rather than another of these possible indicators may not diverge markedly. However, where the shares indicated by one or other of these indicators were to differ greatly, an average of two or more or some other form of combination might be used.

The features of the PDF are appealing. It is non-redistributive. It is neutral. If this is what equity is all about, it is commendable. However, in a grouping like the GECS there is a strong concern for balanced development of the region through a reduction of inter-regional disparities of income and growth so as to diminish the gap between the richer and the poorer members. Besides, economic integration by its very nature imposes some constraints on policy-making which may be more sharply felt by the poor members. It is therefore in the interests of the cohesion of the grouping that every member should derive substantial net benefits to offset the constraints. If this implies that the poorer members should get proportionately more than the richer countries, a measure of generosity on the part of the richer countries towards the poorer members would be required. This of course will depend upon political solidarity and moral philosophy of the grouping; economic reasoning would be of limited guidance here.

The third principle is compensatory equity distribution criterion (CED) which we define as a sharing-out method in which there is a trade-off between the first and second criteria (i.e. a restricted merger of OED and PDF). In other words, the present criterion is a compromise formula which incorporates elements of OED and PDF. This will ensure that the weaker members receive more than their mere net contribution whilst not substantially reducing the net benefits derived by the richer members. To effect this, $\frac{1}{3}$ of the total net benefits could be shared out according to the principle of OED whilst $\frac{2}{3}$ will be shared in accordance with PDF.

The determination of the ratio to be allocated according to each principle is somewhat arbitrary but reasonable. We have been guided by earlier discussions which suggest that the percentage of total benefits to be distributed according to CED should be less than half whilst that to be shared according to PDF principle should be more than half, if the CED is to be readily acceptable to all. To allocate anything more than a third of total net benefits to be evenly distributed might not find favour amongst the richer member states. On the other hand, given the political will and concern for balanced regional development, it seems likely that the richer members could be persuaded to allow a third of the fruits of integration to be equally distributed provided that the rest is distributed according to each state's contribution.

Thus far we have indicated three alternative criteria of equity which could guide negotiators in determining the best way of distributing the fruits of integration within the CECS. But whether any of these would be unanimously accepted as fair or equitable in the circumstances of the region depends on the prevailing climate of political opinion and psychological mood of the members at a given time. Nevertheless, one thing is certain. Because of the unequal size and strength of the CECS economies the first criterion which envisages equal distribution of the net benefits would be regarded as unfair by the more advanced members (Ghana and Ivory Coast). In the same vein the application of the second principle of proportionality distribution might not be popular among the less advanced economies of Upper Volta, Niger and Dahomey.

Thus the third formula which is a compromise solution is more likely to appeal to both camps. In what follows the CED will be applied in distributing the projected benefits of integration in the area.

(iii) DISTRIBUTION OF THE GAINS OF INTEGRATION

The distribution of the benefits and/or losses arising from integration has two principal aspects. The first relates to a fair distribution of the benefits generated by existing regional industries whilst the other concerns an orderly reduction of the disparities between the economies of members through the application of an agreed formula for distributing future regional industries. A satisfactory solution to the distribution problem therefore must give adequate attention to these two aspects.

(a) Distribution of the Benefits generated by Existing Regional Industries.

Now we take up the first aspect of the distribution problem. In the foregoing subsection, we opted to combine under the CED some element of CED (which would be $\frac{1}{3}$) and some element of PDF (which would account for $\frac{2}{3}$). The former is very easy to apply once the overall quantity of the benefits to be shared is known but with respect to the latter we have to choose the best method from among the ones suggested above of ascertaining what the individual state contributes before we can apply the PDF component. Given the pattern of production and trade in the GECS the appropriate measure of this would be the share of each country in the total regional trade (Table 9.1). This is probably more realistic than other indicators. The shares of member countries in the regional GDP will obviously exaggerate the contributions of Ivory Coast and Ghana and ipso facto the benefits accruing to them. Similarly, the shares of each country in the total VAD in manufacturing, as shown in the 4th row of

Table 9.1, is subject to error. For example, the 51% share of Ivory Coast alone represents a very heavy weighting. The corresponding share for Ghana is only 16.5%. The existing low level of trade between Ghana and the Entente States explains this low figure rather than the slow growth of the manufacturing sector in Ghana as compared with the Ivory Coast. For Upper Volta and Niger, the figures are 22% and 10.7% respectively while it is 4% in Dahomey and just 3% in Togo.

But with the adoption of the shares of total regional trade as a measure of the contributions of members we obtain more balanced ratios as in the 2nd row of Table 9.1. They range from 35% in Upper Volta to 3% in Dahomey. Although the gap between these figures is still very wide, it is much closer than that of the share of manufactured products. Thus the share of the individual member in total regional trade serves as our yardstick for measuring its contribution.

Applying the distribution system articulated above in sharing the fruits of integration presented in Table 8.12, we obtain two different sets of figures. Both the actual and proposed distribution results are summarised in Table 9.2. The actual distribution, as noted earlier, is based on individual members' production/consumption capacity of the designated products. With respect to the proposed distribution the share of each member is made up of two elements: a third of the total net benefits divided by the six in compliance with the principle of OKD, and the rest (two-thirds) divided according to the percentage share of each country in total regional trade.

TABLE 9 . 1

GECS : INTRA - REGIONAL TRADE 1966

COUNTRY	IVORY COAST	NIGER	DAHOMEY	UPPER VOLTA	TOGO	GHANA	GECS
Total Value (£'000)	14,350	4,130	1,350	15,000	2,240	5,820	42,890
Total Percentage Share (%)	33.5	9.6	3.1	35.0	5.2	13.6	100.0
Share of Manufactured products (£'000)	5,480	1,340	500	2,730	370	2,060	12,480
Percentage Share of Manufactured Products (%)	43.9	10.7	4.0	21.9	3.0	16.5	100.0
Total Value of International Trade (£'000)	568,000	73,900	44,000	53,700	83,100	442,600	1,265,300
REGIONAL Trade as Percentage of Total International Trade (%)	2.5	5.6	3.1	27.9	2.7	1.3	3.1%

Source: Calculations based on data from EIU and SEDES, Op.cit., PP. 183-184.

Although in most cases these figures are not particularly very large and are unlikely in the short-run to make a profound difference in the GNP of the countries concerned, it is expected that in the long-run the dynamic benefits of integration would be substantial as product coverage widens to justify a union policy on the subject.

A careful comparison of the two sets of figures reveals some interesting features of the implied redistribution. One of these is that the redistribution has clearly given more to the poorer, and less to the richer, union members than their actual shares would suggest. On the one hand, for instance, Upper Volta will receive under the proposed equitable redistribution an amount approximately 6 times its actual share both in 1975 and 1980. During the two periods the corresponding figures for Niger and Togo would be more than 2 times their original individual shares; Dahomey will get about 2 times its normal shares. Ghana and Ivory Coast, on the other hand, will individually receive less than their actual allocation. This is particularly serious with respect to Ghana, who will lose more than $12 million in 1975 and over $17 million in 1980 as a result of the redistribution. As regards the Ivory Coast it losses are relatively marginal and tolerable.

Another feature of the new allocation principle is that it is intra-GECS trade biased. Consequently, countries with high intra-GECS trade in relation to their total international trade have received far more than those whose volume of intra-union is very small. To this extent, our distribution formula has a special appeal to the poorer and landlocked countries. The relatively large amounts obtained by the Upper Volta clearly underlines the importance to it

TABLE 9.2

Individual Shares of the Net Benefits of Integration within the CECS (in U.S. $mn)

COUNTRY	IVORY COAST	UPPER VOLTA	NIGER	DAHOMEY	TOGO	GHANA	CECS
	A C T U A L D I S T R I B U T I O N						
1975	11.92	1.62	1.54	1.16	1.19	18.18	35.61
1980	16.64	2.50	2.23	1.71	1.73	24.63	49.44
	P R O P O S E D D I S T R I B U T I O N						
1975	9.81	10.29	4.35	2.69	3.17	5.30	35.61
1980	13.62	14.29	6.04	3.73	4.40	7.36	49.44

Source: Based essentially on Table 8.12.

Note: (Figures are subject to errors of rounding.)

of intra-regional trade. While its intraregional trade as a percentage of total international trade is of the order of 28%, the equivalent ratio is 1.3% for Ghana, 2.5% for Ivory Coast and 5.6% for Niger (Table 9.1). But the high percentage shares of the landlocked countries in regional trade which, given our distribution formula, means relatively high shares of the fruits of integration should not cause disquiet among other member states. This is because intra-regional trade of the GECS as a percentage of their international trade is around 3.4% (Table 9.1); hence the actual sums of money involved are not very large.

Furthermore, the envisaged expansion of intra-regional trade following the inception of economic integration would necessitate a constant review of this distributive mechanism to assure each member state that it is getting a fair deal. But even so such reviews will continue to accord the least developed and the landlocked countries some special treatment as an integral part of the strategy of diffused regional development. Indeed, any form of "Laissez faire" formula for the distribution of the net benefits of integration based on the interplay of the forces of supply and demand is bound to exaggerate the existing disparities in the level of development of these economies which might in turn force the poorer members out of the union.

(b) Allocation of Future Industries

As noted earlier, a fair and equitable distribution package deal should incorporate a system of industrial allocation with particular reference to integration industries. This would normally involve assigning virtual monopoly rights, by licence, for the production of certain industrial commodities to the favoured country.

Experience suggests that in order to make the assignment of industries to member countries easier and more acceptable it has to be based on an agreed list of specified industries.[25]

The principal rationale for any assignment of monopoly rights lies in the presumed existence of economies of scale. Indeed, if such economies characterize an integration industry, it can be asserted that an outright allocation of monopoly rights will be economically more profitable than allocation through the market mechanisms, since the latter implies the appearance of many smaller industries which would gradually drive each other out of existence until the largest surviving one would be the only supplier in the market. Also, it can be argued from the standpoint of optimum location that if the industries are allocated "correctly", the convergence process of the market will have been speeded up and the comparative advantage of the member countries will be given immediate expression with the consequent saving of real resources.

The benefits to be derived from the allocation of industries will depend primarily on the care with which the allocation is made, i.e. if the industries are allocated to the countries which are "most efficient" in the respective product, then presumably the gains to the union as a whole will be maximized. If the industries are allocated to their worst producers, then the gains will be substantially reduced. The fundamental questions therefore are (i) how to distribute the industries between member countries in order to maximise the gains to the union, and (ii) to distribute the benefits to be derived from the union in a "fair" manner.

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25. See Article 23 of The Treaty of for East African Co-operation in M.S. Wieneczek (ed.), Op.cit., P. 184. Also see Chapter 7, section 2.6.

To tackle this problem one must first begin with an identification of the benefits of the "programmed" industries to the union as a whole and to each of the participants, which is not undertaken here.[26] The results of such an exercise will provide the negotiators with useful material with respect to differential benefits and costs of individual projects to individual members. On the basis of these data the members can mutually agree on a distribution arrangement.

But the application of only economic principles such as location theory, comparative cost and economies of scale is unlikely to produce a sufficient measure of agreement to solve the problem. Because the GECS members may have differing notions about equity and place differing social value on the apparent cost of sub-optimal production in determining their national political strategies. Thus before arriving at the final allocation system negotiators will take into account particular objectives and wishes of individual countries, for instance, some may be willing to "trade off" employment against income, or income in one part of the country, as against income in another part of the country.

Of course such problems like inter-state differences in employment opportunities can be taken care of through the institution if intra-union mobility of labour. As noted in chapter 6, a considerable amount of intra-union mobility of labour already exists within the Entente. When the GECS comes into being it can within some bounds be extended to Ghana. Even so the institution of intra-union mobility of labour to compensate for inter-state differences in employment opportunities will at best be a short-term solution.

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26. This study has limited itself to the evaluation of the costs and benefits of existing integration industries for which some data are available.

A thorough-going and satisfactory allocation arrangement will guarantee each member a "fair" share of the new industries and since such allocation is not based on purely economic considerations alone, the benefits to the union is unlikely to be maximised. In general, the distributionally constrained allocation will imply an efficiency loss, for industries will not always be installed where they produce the highest benefit for the group as a whole. A "trade-off" solution is therefore called for here. For the sake of stability and success of the scheme, a sub-optimal allocation may be acceptable but a skewed distribution of the benefits to members is intolerable. However, an equitable distribution system necessarily requires some institutional arrangements to guarantee its implementation, a matter to which we now turn attention.

(c) Institutional Arrangements necessary to Implement the Equitable Distribution Package

A regulated distributional system such as we have suggested by its very nature is an interventionist approach, which inevitably requires permanent institutional arrangements to enforce it. These arrangements, whatever they are, must be unanimously agreed upon from the outset and clearly written into the union agreement.

The appropriate institutions required to implement an allocation system depend largely on the particular circumstances of a given case.[27]

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27. In three different economic groupings some twelve, and sometimes different, measures directly related to the distribution of the benefits and costs of economic integration among participating countries have been tried, including six in EAEC (Industrial licensing, distribution of fiscal revenue, allocation of industrial activities, the development bank, community corporations and the transfer tax), three in UDEAC (the tax unique, the solidarity Fund and fiscal incentives) and three in CACM (integration industries, the development bank and fiscal incentives). For a detailed analysis of these measures (some of which have been briefly touched upon earlier) see UN, Current Problems of Economic Integration, Op.cit., TD/B/394, PP 59-88. Although these measures aim at a

Certain factors, like the type of integration scheme in operation, the range of products involved, the anticipated value of net benefits (benefits minus costs) vis-a-vis the administrative costs, the locational pattern of integration industries, the impact of intra-union trade on individual member's total external trade and the political feasibility of any chosen institutions, must be carefully considered in each case.

Our main concern here is to propose the setting up of some machinery likely to ensure the realisation of the distributional equity (CED) which has been suggested. The problem, as already noted, has at least, two dimensions: (i) the institution of machinery for the distribution of benefits and costs generated by existing integration projects (corrective measures) and (ii) arrangements for the allocation of future industries with a view to influencing the distribution of their impact effects on members' economies (preventive measures).

With respect to the first aspect a special machinery could be set up in the GECS to execute the CED system. Conceivably, this would ential the establishment of a special evaluation unit to be called Benefits Redistribution Unit (BRU) and a Union Compensation Fund (UCF). These should be established as semi-independent agencies within the Administrative Secretariat of the Union

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balanced distribution of integration benefits and ultimately even development of their economies, they vary quite considerably both in orientation, scope and effect; and they have been devised in each case to suit a particular scheme. Yet problems still remain in all the three groupings - an evidence that these measures have not proved quite adequate and that the search for more adequate measures should continue.

but empowered to report directly to the Council of Ministers, which shall in turn be responsible to the Authority of Heads of State. The ERU should draw its personnel from economic and statistical experts from the member states, making sure that every state is represented in this Unit, though not necessarily on equal basis. The principle responsibility of the ERU will be to assess the actual costs and benefits of integration to the union on annual basis and to make specific recommendations to the union on the redistribution of the net benefits according to the CED criterion.

Since the CED principle will involve a measure of income transefers from the "winners" to the "losers" in the regulated distribution sense, it will be necessary to set up the UCF as an integral part of the allocation package arrangements to physically collect the refunds and make payments out of its receipts to the net losers as recommended by the ERU. Surely, the establishment of the UCF will go a long way to eliminate the periodic cries which had often bedevilled members of a grouping where the operational form of compensation involved direct income transfers of one kind or another from the richer to the poorer partners.[28] The Fund will be able to deal directly with individual partners on matters relating to compensation refunds and disbursements on behalf of the union and will be singularly wellplaced to detect possible sources of friction for union action before they erupt. It can also handle other problems related to its main function which the union

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28. It can be argued that the dissatisfaction of Honduras with CACM, the withdrawal of Chad from the UDEAC and the displeasure of Tanzania and Uganda with the way EAEC now operates all originated from the inadequacy and lack of smoothness of the redistribution system (see Ibid).

might from time to time assign to it. With the full co-operation of the union members, it is hoped, the ERU and UCF will satisfactorily handle the redistribution of the net benefits of integration within the GECS.

As regards the preventive measures they present serious difficulties of measurement, since the lack of the required information makes it necessary to quantify the effects by means of projections. This means that any measures taken ex ante facto will have to be taken on the basis of somewhat speculative estimates. The preventive measures will therefore have to be such as to allow for great flexibility in their application, so that they can be reviewed in the course of integration, which implies, to some extent, converting preventive into corrective measures. Even so preventive measures must be adopted since corrective measures alone cannot grapple with the distribution problem.

In the particular case under review a system of industrial licensing could be adopted for the distribution of future industries. The licensing system, as noted earlier, will prevent ruinous competition and operate as a monopoly concession for the enterprise and the country that obtained the licence. But, to ensure an accelerated and orderly diffused industrial development of the area through the application of the industrial licensing system, other supportive measures would be necessary.[29]

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29. Perhaps, because of insufficient supportive measures, the licensing system in the EAEC did not have the desired effect of accelerating industrial development as a whole, nor did it favour the less developed countries, Tanzania and Uganda. Among other things, it did not provide for a regional distribution of industrial activities; it did not include any procedure to enable the authorities responsible for applying the system to promote the establishment of new industries; and, above all, the initiative in applying for licences was left with private entrepreneurs who were disproportionately concentrated in Kenya (see Ibid, P.61).

There should be well-articulated guidelines for the granting of licences, including an agreed list of industries and these guidelines should be biased in favour of diffused regional development. More importantly, there should be an incentive scheme to back up the granting of licences. Under the EAEC Industrial Licensing Ordinance requests for licences could be rejected if the applicant lacked sufficient capital to establish the industry.[30] If this capital qualification were rigidly applied, as it seems, most of the applicants from the less developed member countries would surely not qualify and the ultimate result would be greater uneven development of the region.

In the CECS area it would be necessary to rectify the capital shortage problem through the establishement of a Development Bank to which we refered earlier as a means of financing industrial development. This bank should be known as the Development Bank of West African. It should be established and organised along similar lines as the East African Development Bank.[31] Its principal objectives should be:

(i) to provide financial and technical assistance to promote the industrial development of the CECS member states;

(ii) to give priority, in accordance with the union strategy, to industrial development in the relatively less industrially developed partner states, thereby endeavourring to reduce the sustantial industrial imbalance between them;

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30. Ibid, P.60

31. For the Charter of the East African Development Bank, see M.S. Wionczek (ed.), Op. cit., PP. 500-521.

(iii) to further the aims and aspiration of the CECS community by financing, singly or in co-operation with other interested institutions, whenever possible, projects designed to make the economies of the CECS member States increasingly complementary in the industrial field.[32]

Provision should be made for subscription by approved institutions and organisations provided the total holding of the six member states does not fall below the conventional majority share of 51%.

However, whether the Bank will fulfil the hopes of its founders in bringing about the growth and equitable distribution of industry will depend on two main factors: (i) the extent to which the establishment of the bank results in the provision of additional finance for the region and not merely the diversion of funds which would otherwise be available through direct aid or capital raised by the six countries acting separately, and (ii) the extent to which finance is a key constraint on industrial development in the Central-West Africa area. It is difficult to form an ex-ante judgement on the first aspect of the question; the bank's ability to attract additional funds will be bound up with the reputation it earns. And it takes some time to establish solid reputation. In the shortrun therefore its impact is not likely to be very large in the field of attracting additional finance.

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32. These objectives represent a slightly modified version of the East African Development Bank objectives (see Ibid.)

The Bank's contribution thus must be evaluated primarily in terms of the constraint of finance and the contribution to balanced development which may result from its investment policies. But even here the extent to which finance is a constraint on industrial development varies in the six States. Surely, it is least important in Ivory Coast, relatively important in Ghana but most important in the more backward states, especially the landlocked and the new drought-stricken members, Upper Volta and Niger.

The bulk of finance for large-scale industries in the region has hitherto come from the EEC countries, especially France, and North America. Given a congenial political atmosphere, finance capital has often been readily available for viable projects and it seems development finance from outside will continue to flow, even if at a decreasing rate. The implied corollary is that the contribution of a Development Bank to balanced development will be limited if, as it should, the Bank finances only economically sound and technically feasible projects.

Nevertheless, the scope exists for the backward countries to derive some gains from the operations of the Bank, although these will be less by the amount of their own contributions. In conclusion, it can be said that the establishment of a development bank has a useful role to play in an integration scheme. Although this may be limited, anything that will enchance the diffused and less skewed development of the integrated economies must be seen as a welcome phenomenon.

CHAPTER TEN

SUMMARY AND CONCLUSIONS

The main purpose of this thesis is to explore whether there is a strong case for economic co-operation in Central West Africa, and, if so, what benefits, if any, would be derived, their magnitude and how they could be equitably distributed; and against this background to offer some policy suggestions for future action. It is hoped that this study may provide some insight into the possibilities and problems of the projected economic grouping between Ghana and the Entente States in particular and other integration schemes in Africa South of the Sahara in general.

The driving force behing the widespread interest for economic integration in Africa, as in many other LDCs, is two-fold. The first motive is political: Colonialism in Africa left behind it a geo-political configuration of divisions and fragmentations. Many of the new African States, although nominally independent, are so small and weak both politically and economically that they have very little prospect of rapid economic development on their own. The achievement of economic integration of one kind or another is therefore seen as a means through which the goal of rapid economic development and African interdependence can be attained. The other and more important reason is economic. At the present stage of economic development in most African countries, industrialisation must be based on import substitution. Beyond a point import substituting form of industrialisation can no longer be economically profitable within the context of micro — States and small national markets. Regional integration offers the prospect of a

larger market, specialization and greater rate of economic growth and development. By basing import substitution on regional, rather than a national market, integration should increase the feasible rate of growth of manufactured output for any given level of protection. In this way it could be expected to contribute to economic growth directly and indirectly.

Indeed, we have in chapter 8 shownempirically that integratiwn could, and in our case does, make a positive net contribution to economic growth. The dynamic aspects of integration highlighted in chapter 3 create opportunities for economic gains, which in turn affect the rate of growth of the GNP of participating countries. These aspects specifically include: (i) the operation of the economies of scale brought about by the enlargement of the size of the market for firms producing below optimum capacity prior to integration; (ii) the existence of external economies which shift specific or general cost curves downward; (iii) the effect on the volume and location of investment; and (iv) the impact on economic efficiency and smoothness of trade transactions due to change in the degree of competition and change in uncertainty and unilaterality of trade policies of individual countries.

The problem, however, is not so much whether or not integration contributes to growth as how to bring it about - in the first instance - in a region like West Africa and ensure its success. The recent history of economic co-operation in the region reviewed in chapter 5 throws some light on why the past and present attempts at regionalism have not been very successful.

One important factor seems to centre around the question of national sovereignty. West African leaders wish to safeguard their newly won independence and do not want to tie their hands.

They recognise that integration involves a conscious surrender or, at least, pooling of a measure of national sovereignty in policy formulation and execution, which may be difficult to reverse. It may even entail a willingness to rely on another country for essential services as Togo will now depend on Ghana to a great extent for its supply of electricity. Even where some integration schemes managed to survive their first few years of life they continued to exist thereafter as ineffective co-operation arrangements. The UDEAO is a case in point. One of the reasons why it was finally scrapped in 1972 is that, as the revenue needs of the member states exacerbated due to disparities in inter-country incomes, it became impossible to adhere strictly to the community principles in the face of divergent national policies and priorities. It is therefore not difficult to understand why the enchantment generated by integration has only been equalled by the degree of caution with which West African countries have, in reality, approached it.

The other major obstacle to integration in the region is the great francophone-anglophone "divide". This artificial division bequeathed by colonialism has, unfortunately, proved durable. Because of external relationships and pressures, the francophone states tend to regard themselves as a separate entity within the subregion. Despite a measure of linguistic affinity the same cannot be said of the Anglophones. More recently, though, some progress has been made in the drive towards greater West African unity. The establishment of the ECOWAS which binds together all the 15 states of West Africa as a single economic community represents a major landmark in the crusade against artificial barriers in the region. Even so, the community up to the time of writing legally exists on paper (chapter 5).

It is yet to function since none of its organs provided for under its Treaty has been set up; the Secretariat has not even been cited. Not surprisingly, it is alleged that a major initial division has arisen between the two camps on the question of membership.[1] It is now known that President Senghor of Senegal, a prominent mouthpiece of the Francophones insists that some Central African countries, particularly Zaire, should be offered the opportunity to join the ECOWAS. But the Anglophones led by Nigeria hold that it would be better not to expand the community at this stage until it overcomes its initial problems, a stand which is in consonance with the OAU decision that any economic grouping in Africa should first begin on the regional level. Although this difference may soon be resolved, it nevertheless reflects the general attitude of the 'Francophones (born out of suspicion and fear of domination) that their own internal unity is as important, if not more crucial than a wider west African unity. It is hoped that, given time and a measure of political goodwill, a thaw can be achieved between the two camps to permit a common endeavour. Also language, in spite of the common notion to the contrary, need raise no particular problem. A grouping with only two official languages is surely easily manageable, considering that the EEC has four.

Another difficulty in maintaining and promoting integration centres on a system of equitable distribution of benefits - which in practice means an acceptable distribution of industrial development.

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1. New Nigerian, 4 November, 1975. See also West Africa, 3 November, 1975; and section 5.7 (iii) of chapter 5.

From the vantage point of individual countries, industrial development within the nation state is more important than rapid economic development on a region-wide basis. Recent events in the region bear eloquent testimony to this. The rejection of Houphouet—Biegny's Convention on dual nationality and economic harmonization by his Entente member colleagues can be attributed largely to the fear of economic domination and polarization.[2] Under the Convention immigrant labour force from other Entente countries in the Ivory Coast were to enjoy citizenship rights both in the Ivory Coast and in their own countries. Other Entente countries, especially Upper Volta, opposed the idea on the grounds that, given the relative prosperity and opportunities which the Ivory Coast offers, immigrants from other Entente countries would

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2. See section 5.4 of Chapter 5. The uncompromising attitude of the less developed members of any partnership of unequal partners is often rooted in this understandable fear of economic domination. Consider, as referred to earlier, the EAEC case. Despite its longevity and relatively good record, its very existence is once again being threatened. It has just been reported that meetings of the National Executive Committee of TANU (Tanganyika African National Union) and of the Tanzanian cabinet have been held and that as a result recommendations have been made to President Nyerere that a break should be made with the EAEC and that an economic union should be forged instead with Mozambique (see AFRICA CONFIDENTIAL, Vol. 16, No. 22, Nov. 7, 1975). What happens next is anybody's guess. Meanwhile another review commission (one, the Kojid Philip's Commission was appointed in 1965) headed by William Demas, President of the Caribbean Development Bank has been appointed "to find out why the Community has not been working properly and make lasting structural recommendations to put matters right" (Ibid.). This commission has been specifically asked to submit its report within 12 months with effect from November 13, 1975. But it is feared that the commission was appointed too late - given the degree of Tanzania's economic and political disenchantment with the EAEC as well as the de facto division that has already taken place, especially with respect to the three key community corporations, the railway, harbours and posts and telecommunications - and that all it can do now is to preside over the dissolution of the community as it exists to-day (Ibid.).

tend to settle in it. This in turn would not only deprive the poorer states of the cream of their labour force but also an important element in their balance of payments account - receipts in form of transfers from their nationals working in other parts of the Entente. This further underlines the need to incorporate a mechanism for making possible an acceptable balanced development in any integration scheme.

The magnitude of gains from integration is another factor which prospective members of a union would want to consider before entry. Although, as we demonstrated in chapter 4, these gains are very difficult to quantify, they look rather modest - if our investigation is any guide. Estimates made in chapter eight suggest that, in the event of the GECS coming into being, an additional increase of the GNP of the area of the order of 0.9% by 1980 might be attributable to integration. Anti-marketeers in the region may chuckle and ask whether this estimated integration-induced growth rate is worth the price of integration (i.e. the loss of a measure of flexibility and autonomy in national policy making and execution). We would of course reply that they reflect the magnitude of the short-term gains since they were based on four products only. It is hoped that once integration gets under way product market would be extended to a wider range of products in which regional trade is both feasible and profitable, hence in the long-run the contributions of integration to economic growth will increase considerably.

Therefore, if integration is considered to be ultimately advantageous - even if its short-term benefits may not be large - an early start may be desirable since it may be much more difficult to bring about integration later. It can be shown that once high cost industries are established to serve national markets, the countries concerned may be understandably reluctant to subject them to outside competition later. As Sidney Dell has clearly summarised the point: "Experience in Latin America shows that once a country begins to move along the path of economic self-sufficiency, it becomes very difficult later on to change direction. It would be much easier today to get agreement on a reasonable division of labour in Latin America if there had not already been substantial autarkic development in many parts of the continent. In this respect Africa has an advantage over Latin America - its need for an integration of markets may be less immediately pressing, but integration may be easier now than at a later stage, when vested interests become much stronger."[3]

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3. Sidney Dell, Trade Blocs and Common Markets, Constable, London, 1963, P. 215.

1. FINDINGS AND POLICY GUIDEPOSTS

1. We have demonstrated in this study that opportunities exist in Central - West Africa for fruitful economic co-operation based in the first instance on the expansion of existing industries whose capacities have hitherto been underutilized. Under a product-based scheme the products of the integration industries would enjoy "free" circulation within the grouping. Once a start has been made and habits of co-operation developed, it may be possible to broaden the base of the co-operation arrangement to include, among others, the establishment of new regional industries.[4] Given that genuine commitment to very broad and far-reaching groupings is yet to be proved - inspite of the formation of ECOWAS - the logic of the West African situation demands a practical approach in form of less ambitious schemes. Since the objectives of less ambitious arrangements are limited and specific, effective decisions are more readily taken and implemented. Furthermore, substantial benefits can be produced and, above all, the price individual members are called upon to pay is highly limited. No doubt, to exponents of comprehensive regional planning, which requires scarce administrative and entrepreneurial resources and data, less ambitious but realistic arrangements may represent a second-best solution in terms of path and scope. But a second-best solution with reasonable results is surely better than any other type of solution without tangible results.

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4. Presumably along the lines suggested in chapter seven.

2. The promotion of economic co-operation in the region may also be further helped if geographically smaller arrangements are allowed to co-exist with wider groupings. For example, it would still be advantageous to encourage the retention of existing or the emergence of smaller schemes in the area among geographically contiguous states with special problems, like the Mano River Union, the Niger River Commission or the GECS provided such organisations are "complementary" in their objectives and policies. Fortunately, the ECOWAS Treaty recognises this problem and specifically permists member states to belong to other economic groupings so long as their obligations under the Treaty of such groupings are not inimical to the letter and spirit of the Treaty of ECOWAS (Article 20 (3)).

3. The system of equitable distribution of the benefits of integration - corrective and preventive measures alike - which we have suggested will, hopefully, take care of the intractable problem of fair distribution of the gains from integration. In a region where intra-regional disparities in development are considerable, the CED criterion, which weights the balance of benefits in favour of the relatively weaker economies, tries to narrow down the disparities. But whatever the merit of the CED formula its acceptability will depend on the political disposition of member states at the initial period. And even if it is acceptable it will necessarily be reviewed from time to time to take account of changing political scenes and alignments in a region that is prone to coups and counter-coups.

With respect to the establishment of new industries, any satisfactory allocation arrangement must start with an agreed list of future industries

containing at least one project for every member country. Also a regional development bank may be able to make some contribution to the achievement of regional balance, especially if finance has been a major brake on investment and if the bank has special resources from which it can assist projects in the lagging regions.

4. The policy of balanced regional development will surely involve the establishment of some "sub-optimal" industries in the lagging regions. Although this may be difficult to avoid, it could be minimised through the encouragement of an acceptable level of intra-union mobility of labour. Since employment opportunities are not evenly distributed, intra-union mobility of labour will not only increase the competitiveness and productivity of labour but also its efficiency. Prior to independence, West Africa was an area which offered considerable freedom of movement to its people. But, in recent years, notably because of the Busia Government's action against "aliens" in Ghana,[5] the picture has altered. Even so there is still a considerable movement of workers and traders over the whole area, and of professional people inside the two main language area. Given a harmonized flexible immigration policy, a healthy intra-regional movement of workers will surely come into being.

5. To ensure the effectiveness of regional trade, the problem of intra-union payments arrangement will require serious consideration. The two currencies (the cedi and CFA franc) currently in use in the region are not freely

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5. See Chapter two, footnote 29. See also West Africa, 17 December, 1973.

convertible between them nor is there an "appropriate" exchange rate within the area. As noted earlier, the advantages of a currency union may be many and fascinating but they require a high level of intra-union trade to be fully realised. Besides, it is not easy to establish a currency union. At this early stage a moderate payments arrangement, which could concentrate, among others, on exploiting the opportunities for multilateral off-setting of surpluses and deficits among the participants, will be easier to achieve. In the long run a more sophisticated payments system will probably emerge. It may well be that West Africa through its association with the EEC under the Lome Convention will benefit from the current moves for uniting European currencies by 1980[6] and for reforming the international monetary system.

6. Finally, given a firm commitment to the idea of integration, West African countries may find that international support has some important role to play in at least two directions. Firstly, international support is necessary to ensure that the rules hitherto applicable to international trade by those countries which are members of GATT will not hinder economically sound regional integration schemes. Typical among such rules are: the unconditional most favoured nation treatment in relation to tariff; and the principle of non-discriminatory application of quantitative restrictions. These rules could really be an impediment to regional groupings if they were to be strictly enforced.

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6. Douglas Dosser, "Tax Harmonization in the European Community". The Three Banks Review. June 1973, No. 98, P. 55.

More recently, however, the climate of international opinion with respect to the formation of discriminatory trading arrangements among LDCs has been more realistic and favourable. Not only did the UNCTAD Conference of 1964 recommend that regional integration should be promoted among LDCs but also less inclusive forms of co-operation received support.[7] It was also recommended that developing countries should not be required to extend to developed countries preferential arrangements in operation among themselves and this principle is also enshrined in the Lome Convention (Article 7 (1)). Similarly, the Trade Development Committee of GATT later conceded that the establishment of preferences among LDCs appropriately administered, and subject to the necessary safeguards, can made an important contribution to an expansion of trade among those countries and to the attainment of the objectives of the General Agreement".[8] These favourable developments point to the conclusion that the door is now more widely open for the formation of less inclusive integration arrangements among LDCs.

Secondly, external support may be important on the financial side. The principle of equitable distribution of the benefits of integration necessarily involves, among other things, the creation of an appropriate infrastructure which will permit investment in directly productive activity. Consider, for example, the extension of the Dahomean railway system to Southern Niger. The resources required for such strategic investments in infrastructure may be generally lacking from within the region.

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7. P. Robson, Economic Integration in Africa, Op.cit., P. 309
8. Ibid.

If developed countries and international agencies could be persuaded to assume some responsibility for helping the LDCs to deal with this problem either through the provision of financial support to regional development banks or financing infrastructure investments in one form or another, the move towards integration might be further accelerated.

2. CONCLUSION

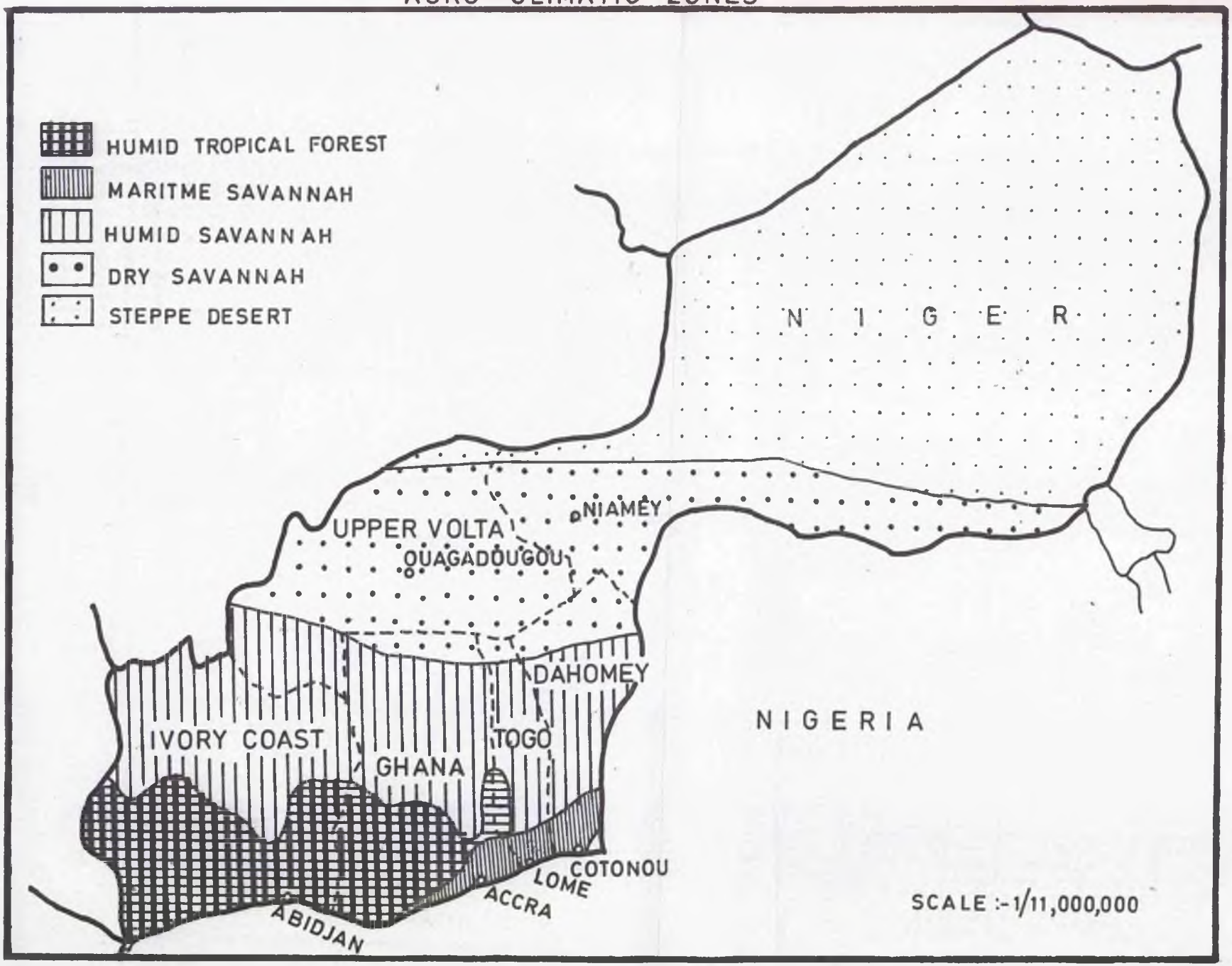
Whereas a major policy goal in Africa is rapid economic development and since the problem of accelerated development must be viewed from a wider perspective, regional economic integration should, definitely, be part of the solution. Economic analysis can as far as possible provide guidance as to the benefits and costs of a given scheme but it is incapable of telling when a particular proposal will get off to a good start. We need to look beyond economics for a fuller answer. In a region that is passing through a historical phase of political instability, nothing is certain: anything is possible and everything depends on everything else. Time alone will tell.

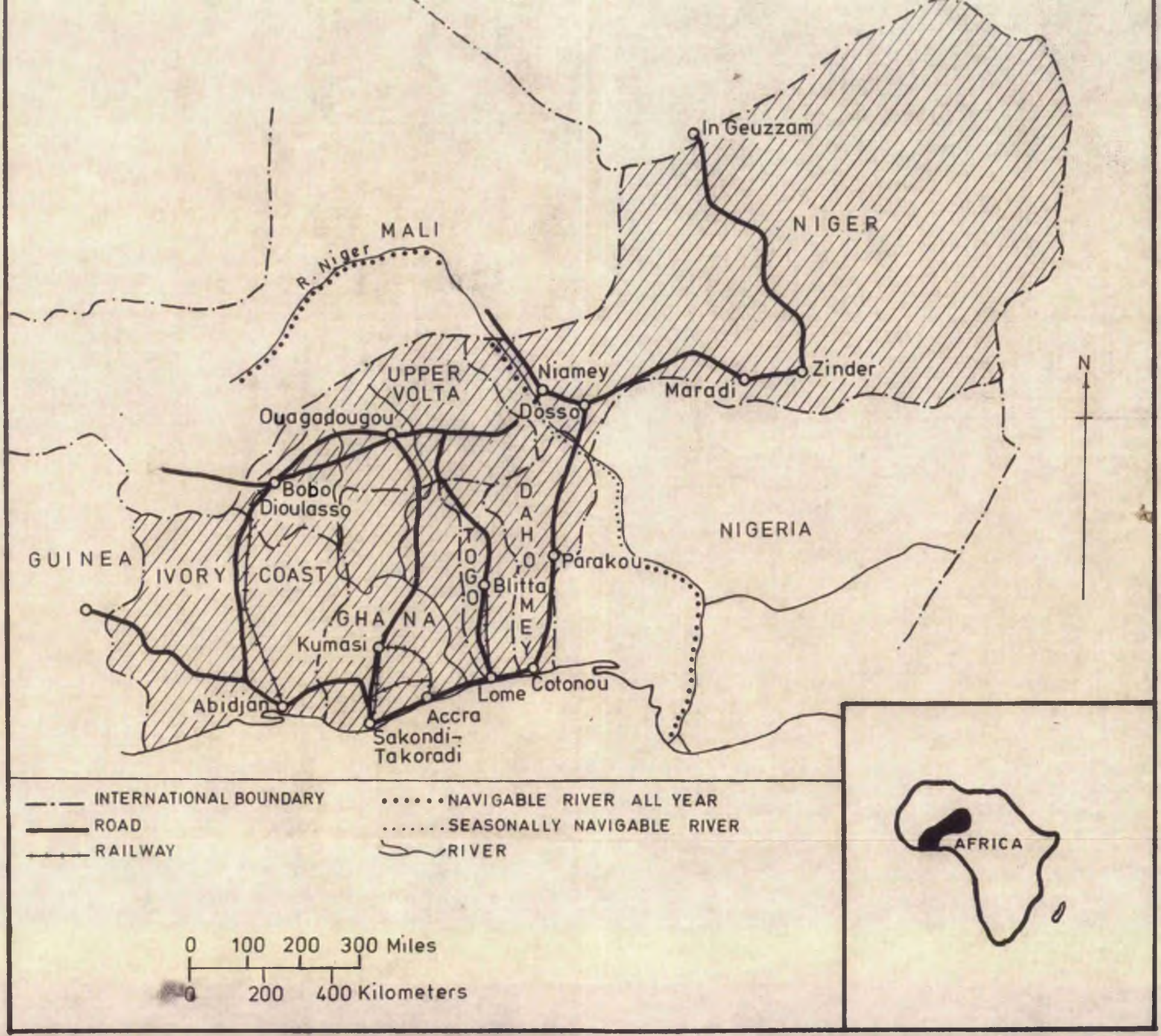
We have shown that economic integration of a modest nature based on the products of selected industries, for a start, between Ghana and the Entente States will not only bring about an additional increase in the rate of growth of their GNP of about 0.9% by 1980 but also will provide the foundation for a wider and more intimate grouping which, it is hoped, will bring greater benefits. But we cannot be sure how readily sound economic advice will be accepted and implemented due to the trade-off between economic and political considerations. This is particularly serious where political changes are rapid and regimes and alignments can alter overnight.

Indeed, the impact of political instability can be safely regarded as one of the obstacles to the orderly development of economic integration in West Africa.

Nevertheless, this should not give cause for despair. Given a measure of determination, the limited form of integration for the joint promotion of selected regional projects, which we have advocated, can still be achieved and once a foundation has been laid the mere existence of a scheme might create opportunities for 'learning by doing'. But, if small schemes involving about half a dozen contiguous countries with comparable economic systems cannot take root, then it must be more difficult to get the newly-formed heterogeneous ECOWAS to function effectively.

AGRO–CLIMATIC ZONES

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